The wealth of the few: the role of material resource power in the institutional reproduction of the Ukrainian oligarchy through its extractive political and economic practices, 2014-17.

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I, David Dalton, confirm that the work presented in this thesis is my own. Where information has been derived from other sources, this has been indicated in the thesis.

Abstract

The thesis examines the process of reproduction of the modern Ukrainian oligarchy, and its survival as an evolving political economy institution across the "critical juncture" of the Euromaidan revolt of 2013/14, by way of continuation of its "extractive" political and economic practices, focusing on the role played by material resource power (wealth). Covering political and economic capacities and practices central to the reproduction process, the empirical chapters describe, analyse and explain the dynamics of wealth of the Ukrainian super-rich in relation to Ukrainian society in 2006-17, and its political implications; the process of conversion of wealth into political influence through vote-buying in the Verkhovna Rada (the Ukrainian parliament); and elite rent-extraction schemes in the Ukrainian gas sector before and after the Euromaidan revolution, which illustrate the means of conversion of political influence back into wealth. A key argument of the study is that continuity in informal political and economic practices between the Yanukovych and Poroshenko presidencies, and of the elite political-economic networks that conduct them, signals continuity in the dominant political economy regime across the two periods. The main economic effects of the continuation of the informal practices of the Ukrainian oligarchy since its inception in the 1990s have been to undermine state capacity and investment. Based on the empirical investigations, the thesis proposes a novel way of envisaging the interconnection between the capacities, practices and processes of the Ukrainian oligarchy at a more general level, represented as a "currency flow", or circuit, of wealth and power. To the academic literature on the dynamics of informally dominated post-communist political and political economy regimes, the dissertation adds, therefore, a detailed, integrated, and internally comparative case study of Ukraine.

Impact statement

At an economics conference in Ukraine in early September 2021, Poul Thomsen, a former IMF official, is reported as telling the audience that the right economic policies for Ukraine are to improve the business environment and corporate governance, and to tackle corruption, in this way paving the way for private sector to drive economic growth (https://bit.ly/2X17MkF). These are the kinds of policies that the international financial institutions (IFIs) have been recommending to Ukraine for the past 30 years.

By examining the process of institutional reproduction of the Ukrainian oligarchy, with its own practices, incentives and logic, my study helps to explain why such standard policy prescriptions have so often failed to take root in Ukraine. As such, it contributes to a growing scholarly consensus on cyclical patterns of elite political dynamics in the post-Soviet world, based on an understanding of its institutions as underpinned by a different political economy culture than operates in the liberal democratic West. The cyclical conception brings with it a fresh perspective on the problems of democratisation and the construction of market economies, seeing, for example, the periodic political disjunctures in post-Soviet politics not as instances of democratic breakthrough or backsliding, as with an earlier, more linear perspective, but rather as cycles of elite adaptation and reordering, as informal business-political networks interact with, and adjust to, changes in official politics. In time, this more realistic understanding of the relevance of cultural-institutional settings should begin to feed into public policy on economic development and democratisation, favouring appropriate policy adaptation.

By reconceiving and re-presenting a series of detailed, locally produced investigations into the Ukrainian elite as a coherent, institutional whole, my study also helps to explain the recurrent failure of campaigns of "de-oligarchisation" in Ukraine, which tend to reduce the problem to sanctioning this or that individual oligarch, rather than addressing the more difficult issue of institutional-cultural change.

In academia, a novel, joined-up, "cyclical" conception of the Ukrainian oligarchy as an institution habitually reproduced by its practices and support systems at the regional, national and international levels could aid the organisation and integration of further research in this topic area. More specifically, having arrived almost at the end of my own PhD on the mode of elite rule in contemporary Ukraine, I have come to the conclusion that, to understand “how politics really works” there, more research should be done on the workings of the business-political networks that are at its heart.

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Infographics

Heading hierarchy used in the dissertation

- **A. 1st level**
  - I. 2nd level
    - i) 3rd level
      - 4th level (plain underlined heading)
        - **“d” head** (emboldened text at the beginning of a paragraph)

<u>Chapter One</u>. Introduction: the contemporary Ukrainian oligarchy as a case study of an informally dominated post-communist political economy regime

A. Topic, essential definitions and political economy approach

The topic of my dissertation is the contemporary Ukrainian oligarchy. In this study, I present my research on some of the main political and economic capacities and practices by which it is reproduced as an institution, drawing attention also to key economic outcomes of this process. My use of the term "oligarchy" for this institution reflects local convention, but also aims to underline a focus on the material dimension of its reproduction. With modern Ukraine as a detailed case study of a post-communist political economy regime dominated by informal modes of operation, the framework developed in this research offers a fresh angle on the examination of the problems of economic and state development of countries in which the economic and political realms of social life have not undergone the same process of separation as in the liberal democratic West (Magyar and Madlovics, 2020, p. 8).

But who counts as an oligarch, and what is an oligarchy? In *The Politics*, Aristotle defines oligarchs as the wealthy few and oligarchy as the self-interested form of their rule, reserving the term "aristocracy" for the version of minority rule of the rich that is better able to balance the interests of all social groups (Aristotle, 1996, pp. 71-72; III vii 1279a 34-40, III vii 1279b 1-10, III viii 1279b viii 11-39). In modern Ukraine, oligarchs may be described, adapting the definitions of Winters (2011) and Pleines (2016a), as the very rich heads of business conglomerates who are involved in national politics to protect and augment wealth, their characteristic "resource power". However, they are only one set of actors in a larger institutional structure to which their group lends its name, with "structure" here indicating a repeating pattern of group activity, somewhat independent of its individual membership, that is relatively stable over time. As a first step, therefore, I will define the Ukrainian oligarchy relationally, as a system of elite rule that connects oligarchs and their business networks in a sometimes rivalrous, but often mutually beneficial relationship with electorally successful politicians and their networks in the state apparatus.

The title of my dissertation is “The wealth of the few: the role of material resource power in the institutional reproduction of the Ukrainian oligarchy through its extractive political and economic practices, 2014-17.” It aims to encapsulate a second, “process” definition of Ukraine’s political economy model, arrived at as one of the key results of the dissertation.

Mainly a work of political economy, my study also draws on the disciplines of politics, political sociology and macroeconomics. Political economy can be distinguished by its adoption of a social science approach to the study of economics (Stilwell, 2012, p. 8), as opposed to attempting to emulate the methods of the natural sciences. But if political economy is the study of the relation of the political and economic realms of social life to one another, it is also the study of how different schools of thought have conceived of this. Although my approach in this study is somewhat eclectic in this respect, it is closest, perhaps, to the institutional school. That is, my investigation takes as one of its starting points a “new” institutional theory of economic development. In the final empirical chapter, however, which is on elite rent-extraction schemes in the Ukrainian energy sector, my approach takes its cue more from “old” institutionalism, with its concepts of habit and evolution, and an emphasis on detailed descriptive contextualisation. One reason for this is that “old” institutionalism better aligns with the “informality” approach to political analysis outlined in my examination of voting patterns in the Verkhovna Rada, the Ukrainian parliament (Chapter Five).

B. What is the link between regime resilience and low living standards?

I. Research puzzles: the origin and resilience of the Ukrainian oligarchy vs Ukraine’s chronic economic underperformance

The essential components of the oligarchy as a political economy institution emerged in Ukraine in the early to mid-1990s, following its declaration of independence in 1991 from an ailing Soviet Union, and crystalised towards the end of the same decade. Since then, it has come through two major domestic political upheavals (the Orange Revolution of 2004/05 and the Euromaidan revolt of 2013/14), as well as military conflict with Russia, more or less intact. Early on in my research, therefore, it became apparent that the Ukrainian oligarchy is a resilient institution which, following a number of episodes of serious political disjuncture, has so far been able to pick itself up and carry on much as before.

The original motivation for this project, however, was Ukraine's chronic macroeconomic underperformance in the independence era. A basic stylisation of regional economic development since the early 1990s is that the former communist countries of central eastern Europe (and the Baltics) generally did much better than those of the former Soviet Union (excluding the Baltic states). In particular, economies in the first group tended to record shallower and shorter "transition" recessions, and to recover more quickly (Turley and Luke, 2011, pp. 72-74; Douarin and Mickiewicz, 2017, pp. 5-6; Roaf et al, 2014, contains many nice graphical illustrations of these broad points).

In Ukraine, by contrast, economic performance has been weak even by the standards of other former Soviet economies, so that by 2017 Ukraine's real GDP per head, as a general measure of living standards, was still 20% below its level at the time of the break-up of the Soviet Union in 1991, according to IMF data. This is shown in Figure 1.1 below, which is based on the construction of simple indices of real GDP per head, with 1991 as the base year. Ukraine's real output per head in 2017 is represented by the height of darker grey bar on the right-hand side of the chart relative to a 1991 starting level of 100, represented by the dashed, grey horizontal line. The use of a real purchasing power parity (PPP) measure allows comparison of living standards between countries over time by taking into account differences in the cost of living. The better economic performance of some of Ukraine's former-communist neighbours is indicated by the height of their 2017 output bars relative to the starting line in 1991. On this measure, therefore, while Ukraine's output per person remained below the starting line, the average standard of living in Poland rose almost threefold over the interim, and more than doubled in both Romania and Belarus. Even for Russia, whose economy has experienced relatively weak post-Soviet growth, the volume of annual output in 2017 was 27% higher than in 1991. The difference in output performance of these economies is more striking because the starting points for Poland and Romania in 1991 were similar to that of Ukraine, while for Belarus, real GDP per head was a little lower. As a result, Ukraine in 2017 found itself still vying for bottom place in the European rankings with Moldova and Kosovo in terms of GNI (gross national income) per head (World Bank Data Bank).

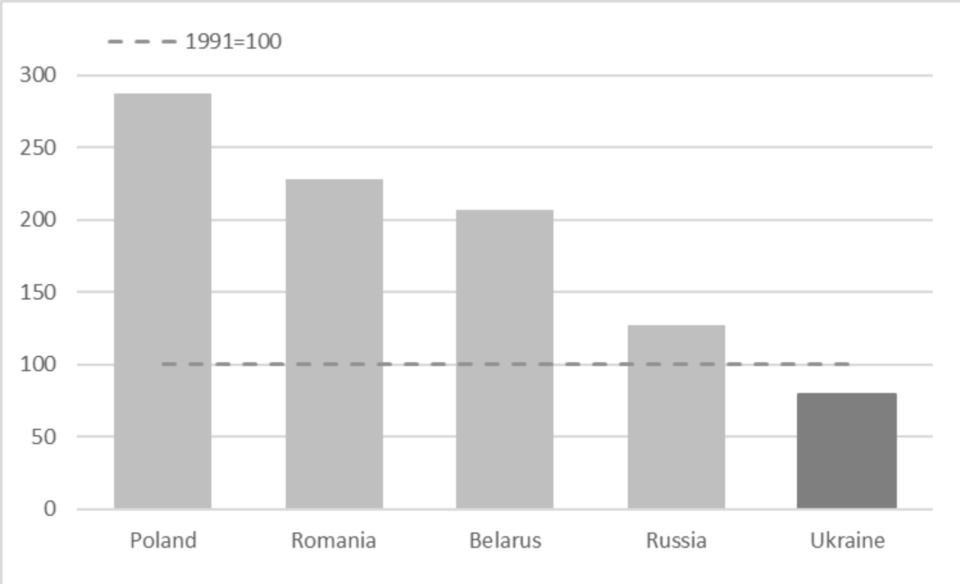


Figure 1.1: Real GDP per head index for selected east European countries, 2017. Sources: IMF, World Economic Outlook (WEO) Database, October 2019. Available at: https://www.imf.org/en/Publications/WEO/weo-database/2019/October. [Accessed February 28th 2022.] Note: Own calculations, based on data in 2011 US dollars, PPP.

II. Was Ukraine's GDP growth really so poor?

There has been much dispute about the veracity of east European economic growth data, especially regarding the scale of the falls in officially recorded output in the 1990s. Anders Aslund (2001) collects together several such concerns, including over conceptual and measurement problems, as well as a failure to take into account the size of the informal economy—that is, the part of economic activity that does not show up in official statistics because it goes on, untaxed, beneath the authorities' radar.

In Ukraine, the informal economy ballooned in this period. Based on an IMF report from the late 1990s, Marko Bojcun suggests that, by 1995, it may have accounted for up to half of all Ukrainian economic activity (Bojcun, 2020, p. 187), higher than both Russia and Lithuania, where it is estimated to have peaked at around 40% of official GDP. The country's informal economy remains large, according to the Ministry of Economic Development, at an estimated 33% of official GDP in the first nine months of 2017 (Burakovsky et al, 2018, p. 15).

Taking into account the range of flaws in official statistics that he notes, Aslund re-estimates real GDP (rather than real GDP per head) for the transition economies at the end of the 1990s, concluding that only the war-torn former Soviet republics, such as Georgia or Tajikistan, really suffered very large production losses. For the economies of central eastern Europe and the Baltics, he argues, no real drop in output occurred. In the case of Ukraine, rather than falling by more than half, as official statistics indicate, he estimates a fall in real output from 1991 to its nadir towards the end of that decade of just 15% (Aslund, 2001, p. 15).

Some of these data criticisms appear valid, especially those concerning the change of reporting incentives, with overreporting encouraged during the socialist era by administrative production targets, and underreporting motivated since the move towards market-based system both by the desire to avoid paying taxes to enrich corrupt state elites and by a failure to capture the growth of the new (that is, not previously state-owned) private sector (Havrylyshyn et al, 2016).

Nevertheless, the scale of Aslund's proposed readjustment of the official numbers is problematic. In Ukraine's case, for example, if output had declined by just 15% cumulatively in the 1990s, or about the same as in 2009 as a result of the global financial crisis, then it might be expected that the impact on indicators of life expectancy and poverty would be similar. So, according to the World Bank, by the middle of the 1990s average life expectancy at birth in Ukraine had dropped by 1.7 years for women, to 72.5 years, and by 3.4 years for men, to 61.2, both compared with 1991 (World Bank Data Base, *World Development Indicators*). Over the same period, the share of Ukrainians living on less than US$3.90 per day—a measure of the incidence of poverty—peaked at just over one-fifth of the population. Towards the end of the first decade of the current century, by contrast, no such sharp deteriorations were recorded. Even on Aslund's revised GDP estimates, however, Ukraine's performance remains very poor in regional comparison, and it is this relatively worse position that is one of the two key research puzzles for my investigation.

III. Ukraine's socio-economic performance in wider comparative perspective

Taking a somewhat wider view of Ukraine's economic and social development over the past three decades, following Oleh Havrylyshyn (2017, pp. 35-60), only confirms this picture of Ukraine's relatively worse performance, even compared with other former Soviet countries.

Table 1.1 below shows 2017 World Bank data for the stock of inward foreign direct investment (FDI) for some east European countries. Inward FDI is investment into domestic companies from abroad, usually implying a degree of enterprise control. Its economic significance is not only that it provides additional demand for home-produced goods and services, but that it also tends to raise production and export capacity over the longer term, without adding to foreign debt, as would borrowing from abroad. A striking feature of this data is the large absolute volume of investment accumulated in Russia (US$400bn) and Poland (US$240bn) since the onset of economic transition (World Bank Data Bank, *World Development Indicators*). However, both as a share of 2017 GDP and by head of population, the stock of inward FDI is considerably lower for the eastern Slavic countries (Russia, Ukraine and Belarus) than for the former centrally planned economies to their west (Poland, Slovakia and Estonia). In the first group, accumulated inward FDI was equal to 20-40% of 2017 GDP, or US$1,000-3,000 per head; in the second group, it was equal to 45-90% of GDP, or US$6,000-18,000 per head. A common explanation for this is the differences in investment climate, or how welcoming, in terms of policy and regulation, each economy is perceived to be by foreign investors. By 2017 Ukraine's total FDI stock, of US$43bn, was relatively high as a share of its 2017 GDP, following the battering of the Ukrainian economy by war and recession in 2014-15. Its stock of inward FDI per head, however, at less than US$1,000 per person over 26 years, was below even that of Belarus, which did not really begin to consider significant market reforms until the impact of falling global prices for its key exports from 2014 forced it into recession for the first time in 20 years (IMF, 2016b; Dalton, 2016).

Table 1.1: Stock of inward FDI for selected east European countries by 2017

	FDI (US$ bn)	Share 2017 GDP (%)	FDI per head (US$)
Ukraine	43.3	38.6	972
Russia	441.1	27.9	3,031
Belarus	12.8	23.4	1,358
Poland	238.5	45.3	6,284
Slovakia	59.5	62.3	10,923
Estonia	23.9	89.1	18,135

Source: World Bank DataBank, *World Development Indicators;* available at: https://databank.worldbank.org/source/world-development-indicators. [Accessed February 28th 2022.]

Finally, the UN's Human Development Index (HDI) aims to produce a more rounded indicator of socio-economic progress and well-being than given by GDP alone (UNDP, Human Development Data Center). To do this, it combines assessments of levels of income (GNI per head), education (adult literacy rates and enrolment ratios) and heath (life expectancy at birth) into a single number between 0 and 1, with 1 as the best outcome. Figure 1.2 below shows the change in the HDI index number for a number of east European countries (and China) between 1991 and 2017, presented alongside the average change in the HDI across the world over the same period, depicted as the two bars on the right side of the chart.

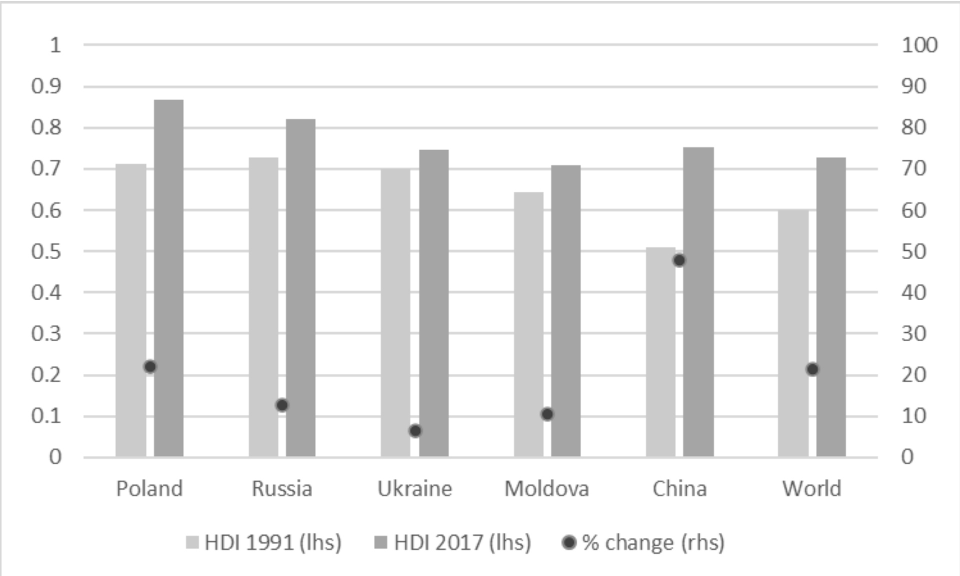


Figure 1.2: Human Development Index (HDI) for some east European countries & China, 1991-2017. Sources: United Nations Development Programme (UNDP), Human Development Data Center. UNDP, Human Development Reports. Available: http://www.hdr.undp.org/en/data. [Accessed July 24th 2021.] Own calculations.

Reading these bars against the left-hand scale, the world average index number rose from 0.6 in 1991 to just above 0.7 in 2017, or by about 20%. This is indicated on the chart by a black dot between the bars, to be read against the right-hand scale. In eastern Europe, while the pace of improvement for Poland is a little above the world average, it is considerably below this for Russia and Moldova.

In contrast to Russia and Poland, but in common with Moldova, in 2017 Ukraine did not qualify as a country with a high level of human development, defined as an HDI score 0.8 or above. Instead, with its index number rising from 0.701 in 1991 to just 0.747 in 2017, it remained among the countries considered to be of "medium" level in terms of human development (with scores of 0.5-0.8). The improvement in the index over this period in Ukraine, of just 6.6%, is therefore the least impressive of the countries shown here. By contrast, the index number for China shot up by close to 50% over the same quarter of a century.

On all these counts, therefore—standard of living, foreign investment, life expectancy and educational levels—Ukraine's socio-economic performance in the post-communist era has been worse than most of its near neighbours, while its sub-optimal political economy regime has nonetheless remained intact.

C. What explains Ukraine's poor economic growth, other than oligarchy?

<u>IV. Initial conditions, macroeconomic stabilisation, market reforms and institution-building</u>

Over the past three decades, a large body of economic research has been developed to account for the marked variation in the patterns of growth among the post-communist economies of eastern Europe, proposing numerous explanations for this other than oligarchy. The following thumbnail sketch of these explanations is based mainly on Turley and Luke (2011, pp. 225-264).

One approach has been to distinguish explanations that focus on the unexpectedly severe recessions of the 1990s from those that try to identify the main determinants of growth in transition economies over a longer time frame. This reflects concerns over the applicability of traditional neoclassical theories of long-term economic growth, based on the accumulation of production factors, such as physical and human capital, and technical change (Douarin and Mickiewicz, 2017, p. 147), to the transition recessions of the 1990s, when issues of resource reallocation by way of systemic transformation came more to the fore.

Two key factors often seen behind the transition recessions of the 1990s are external shocks from the disintegration of trade links and the disorganisation of supply chains. The disruption of trade was due primarily to the break-up of the CMEA (the Council of Mutual Economic Assistance, an international trading bloc dominated by the Soviet Union) and the Soviet rouble zone. On the disordering of supply links between firms, it is argued, most prominently by Oliver Blanchard, that liberalisation offered firms previously locked into planned production relationships the room to bargain with a wider range of buyers on price. But with one party in the transaction (the producer) having better information about the product, there was no guarantee that the bargaining process would succeed, so that old production relationships broke down, but without new ones taking their place (Turley and Luke, 2011, p. 243).

By now, however, the core economic explanations for the cross-country variations in growth over the long term have been identified by way of a large number of econometric studies and, in particular, of “meta-analyses” (Table 7.8 in Turley and Luke, 2011, pp. 248-260) of them, the aim of which is to iron out methodological errors and inconsistencies between individual studies and, in light of this, identify valid common patterns and trends. Chief among the determinants of growth so identified are initial conditions, macroeconomic stabilisation, market reforms and institution-building.

Initial conditions include the institutional inheritances carried over from both the communist and pre-communist eras, with institutions understood broadly as sets of socially transmitted rules guiding and constraining individual action. Among the factors carried over from the communist era, for example, can be included industrial structure, the degree of trade integration with the CMEA, the extent of macroeconomic imbalance at the start of transition, and length of time under communist rule.

In particular, in the post-communist period, dissimilar initial conditions are found to affect the tendency of the different economies to adopt the policies required both to achieve macroeconomic stabilisation and to embed the rules needed for a market economy to work. According to these studies, the length and depth of the 1990s recessions is linked with the timing of adoption of liberalising reforms, which centrally involved the removal of administrative price controls; and on macroeconomic stabilisation, which usually aimed to bring down the high post-communist inflation triggered by price liberalisation, including through control of budget deficits. The message of this is that rapid reformers tended to suffer the least. Alongside structural market reforms, over the longer term, the pace of economic recovery and growth is found to correlate with the adoption of institutional reforms, such as on property rights and the development of appropriate regulatory bodies. Although these were usually politically more difficult everywhere, countries that moved fastest on the first set of liberalising reforms tended to do so also on the second.

Two other factors are frequently mentioned in the literature as distinguishing the best east European post-communist economic performers from the worst. These are, respectively, EU membership and regional conflict, under the reasoning that qualification for EU membership imposed an additional degree of reform discipline, whereas war destroyed parts of the labour force, physical assets and the confidence needed among economic actors to drive a sustained expansion in output.

D. Lagging reform as a key explanation in Ukraine's case

V. Ukraine's reform lags shown by EBRD Transition indicators

Just as macroeconomic stabilisation and the introduction of marketising reforms are conceived to have set the groundwork for sustained economic growth, so the lag in the introduction of such reforms in Ukraine is frequently identified as a key reason for the depth and duration of the country's transition slump in 1991-98, when output volume fell by 53% from peak to trough (calculated using same IMF data as for Figure 1.1), and for its generally poor economic outcomes since then.

In his overview of Ukraine's economic growth record, Havrylyshyn, for example, reproduces Ukraine's EBRD "transition scores" on the two sets of market economy reforms, liberalisation and institutional development, in regional context up until 2010 (Havrylyshyn, 2017, pp. 39-40), although the series was discontinued in 2014 in favour of a somewhat different concept of development (EBRD, 2018, pp. 106-110). The combined scores for economic liberalisation measures show that Ukraine lagged behind not just the leading reformers such as Poland and other central European states, but, until 2010, other former Soviet countries also. Institutional reforms were often delayed for political reasons across the region. In Ukraine, however, they did not make much headway until the end of the 1990s, with the reforming government of Viktor Yushchenko. In the following decade, although Ukraine overtook other former Soviet states on this indicator, it remained far behind the region's leading reformers.

VI. Why did reforms lag in Ukraine?

This raises questions, however, not only of why progress on the transformation of economic institutions has been so slow in Ukraine, even compared with some countries with similar starting conditions, but also of who has been doing the slowing, and how, so that the issue of reform lags appears as an explanation in need of an explanation. This is where a political economy approach—examining the changing incentive structures that face social actors as a result of the evolving relations of political and economic power—comes into its own. Here, we may start with two proximate causes for the delay in reforms. The first is that towards the end of the Soviet era, nascent reformist elements in Ukraine, gathered in the Rukh movement but aware of their own weakness as a national political force, made a "Grand Bargain" with the "nationalising" nomenklatura (the communist-party-controlled political and state economic elite) led by Leonid Kravchuk, Ukraine's first post-Soviet president, allowing them to remain in power in return for their support for Ukrainian independence (Wilson, 2015, pp. 174-175). Kravchuk, in turn, focused on "nation-building", neglecting urgent economic reforms, which did not really even begin to get under way until 1994. Second, for well-connected actors, the combination of limited property rights introduced in the late Soviet era by the government of Mikhail Gorbachev, and the lag in market economic reforms in the early post-communist period, produced opportunities for significant wealth accumulation (Chapter Three). The most successful of them, dubbed “oligarchs”, used the political power conferred by their newfound wealth both to tip the privatisation process in their favour, so boosting the process of wealth concentration still further (Chapter Four), and to perpetuate the conditions of incomplete political and economic reform, of which they were the main beneficiaries (Hellman, 1998).

Rather than examining again the impact on Ukraine’s economic performance of its institutional inheritance or of economic shocks from the break-up of the Soviet Union, therefore, the focus of this study is on the establishment of a new kind of post-communist political economy regime—the modern Ukrainian oligarchy—and the ways in which the means of its constitution, regeneration and survival across crises have contributed to the country’s perennially poor economic performance. The basic relations of post-communist political-economic power in Ukraine were established during the presidency of Leonid Kuchma in the late 1990s (Chapter Three). Although these relations have evolved under successive leaderships, the fundamental modes of operation have remained the same (Matsiyevsky, 2018; Dalton, 2021), which is what I mean here by “regime”. It is not, then, just a question of economic winners and losers from the transition process, but more of the kind of resilient institutional structures the winners created that have helped to perpetuate their winning.

E. Thesis, “national” scope, dissertation structure and main contributions

VII. Thesis

On this basis, and drawing also on a theory of oligarchy as the politics of wealth defence (Chapter Two), I arrived at the central thesis of my dissertation. This is that **the process of reproduction of the contemporary Ukrainian political economy model—popularly referred to as the oligarchy—has economic side-effects that help to explain Ukraine’s perennially poor economic performance**. In the language of modern institutional economics, one way of putting this is that the means of political influence that the very rich use in Ukraine to protect and enhance their wealth encourages the persistence of institutional norms and behaviours that inhibit the development of economic institutions associated with broad economic prosperity. Seen this way, my two research problems—Ukraine's poor post-independence economic performance, and the resilience of the oligarchy as an institution—appear as two sides of the same research problem.

VIII. The "national" level of institutional reproduction in its broader context

To understand how the Ukrainian oligarchy managed to keep going after the Euromaidan revolution, the most recent and serious "critical juncture" in modern Ukrainian history, the body of my investigation, designed around a comparison of the post-Euromaidan period to the Yanukovych era, is organised into three empirical chapters.

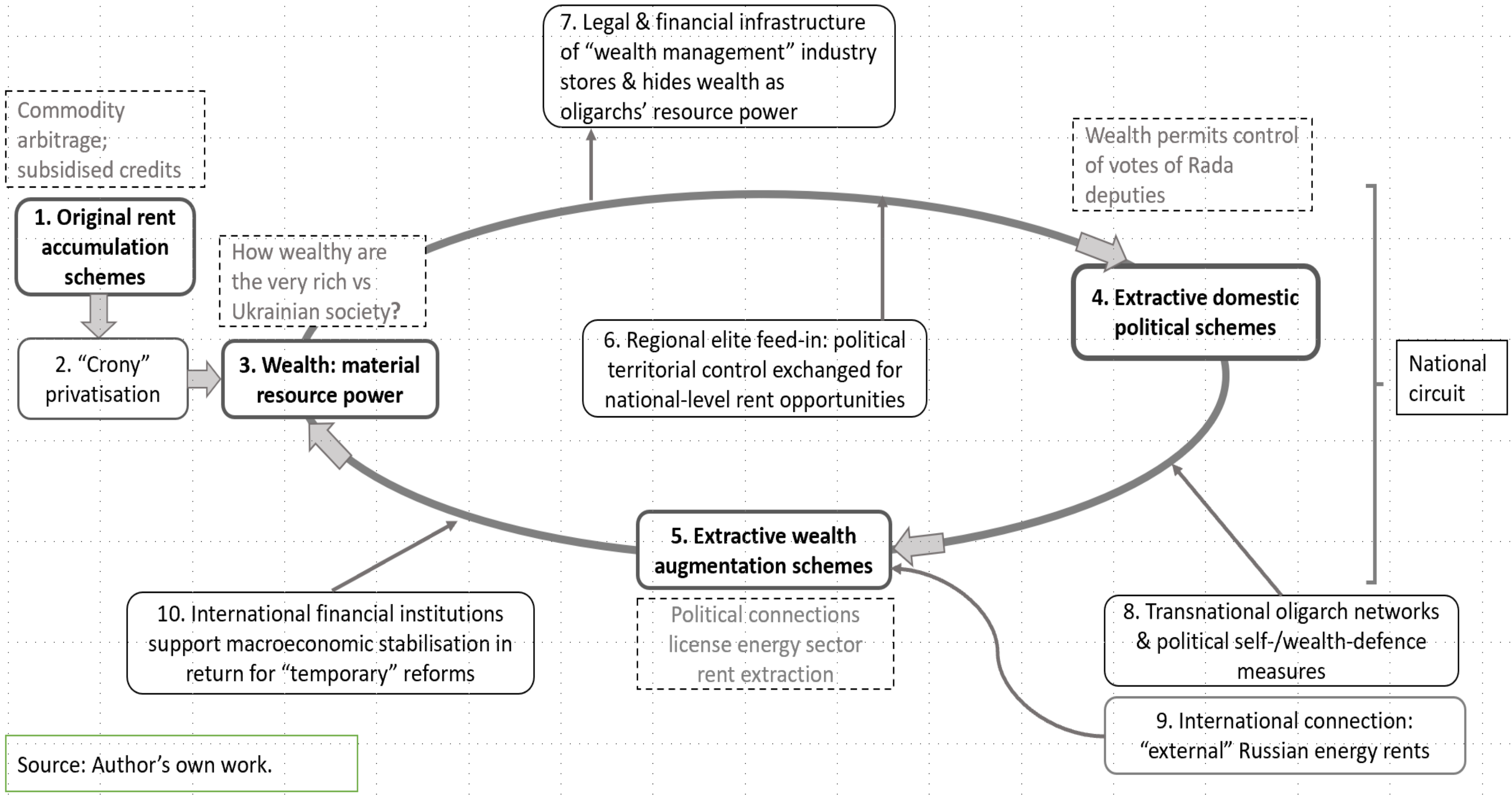
Each chapter tackles a specific research question designed to address a gap in the scholarship identified as part of the critical literature review (Chapter Three), examining in detail either a specific capacity, or political-economic practice, as exemplars of specific kinds of practices in the process of institutional reproduction of the Ukrainian oligarchy at the national level.

In turn, an understanding of how these national-level processes fit in with both lower-level (regional) and higher-level (international) processes is one of the outcomes of my research. This is depicted in Infographic 1.1, below, as a "currency flow" of wealth and power at different planes of institutional reproduction or support in order to situate my national-level empirical chapters within this broader circular or "process" framework of institutional reproduction.

The framework itself, however, is discussed in more detail in the conclusion to this study (Chapter Seven). The topics covered in most depth in my dissertation are emboldened in the graphic (points 1, 3, 4 and 5), while most of the others impinge on the analysis at some stage.

Infographic 1.1: Currency flows of the Ukrainian oligarchy

The "national" circuit of reproduction, with key regional & international connections



Source: Author's own work.

IX. Dissertation structure: research topics and questions, key arguments and findings

My first empirical chapter (Chapter Four) examines the patterns of wealth concentration and dynamics of the contemporary Ukrainian economic elite. It addresses the research question: Has the wealth of Ukrainian oligarchs since 2014 remained sufficiently concentrated, relative to Ukrainian society, for it still to be considered a major "material resource power" in national politics? The central finding is that in 2010-17 the domestic business wealth of the economic elite fell by half as a share of national wealth. However, this need not, it is argued, imply a decline of elite, and especially of oligarchic, potential political power. This is because a steep drop in the hryvnya exchange rate in the economic crisis of 2014-15 is likely to have amplified the material resource power at home of wealth already held abroad. Moreover, the elite networks through which wealth is transformed into political power in Ukraine remained broadly intact.

A second line of empirical research (Chapter Five) investigates the question: Do voting patterns in the Rada in 2014-17 support the idea that politically well-connected business leaders (oligarchs) have continued to use their wealth to influence the outcome of economic policy and political economy reforms? Although the evidence for such a direct relationship proved less robust than it first appeared, the results may express something more basic about the operation of politics in the Rada, as well as its role within Ukraine's political economy system more widely. This is that a certain "fuzziness" of the organisational forms within parliament and the relative looseness of alignments between them are not incidental features of its operation, but rather necessary ones to enable the flexible process of deal negotiation between leaders of business-political networks that is at the heart of contemporary Ukrainian politics. A break of factional voting patterns in the Rada in April 2016, a key finding of the chapter, is a striking example of this flexible process in action, appearing to indicate the full recreation of the oligarchy as a transactional relation between politicians, state officials and big business (Dalton, 2021).

The third empirical investigation (Chapter Six) examines the adaptation of a number of elite energy sector rent-extraction schemes—a traditional source of oligarchs' wealth—to the changing political and economic conditions, and energy policy, of the post-Euromaidan period, comparing these with "historical" energy intermediary schemes. The chapter finds that, with opportunities greatly reduced for the operation of traditional gas rent schemes, in the early post-Euromaidan years, the schemes examined tended to become smaller and more regionally confined, but that opportunities for rent extraction began to open up again once the worst of the crisis was passed, and especially following the reintegration of key "old" oligarchs into post-revolutionary politics from 2016. A key argument of the chapter is thus that Ukraine's flexible and adaptive political economy model permits the pursuit of anti-corruption reforms as a mode of self-preservation in times of crisis, but then facilitates a return to customary rent-extraction schemes as this becomes expedient. By recasting leading oligarchs in a defensive role, the war with Russia may have helped to save the Ukrainian oligarchy as an institution; by reducing the availability of "external" rents, however, the diversification of energy supplies away from Russia in response may have been one of the more effective anti-corruption measures of this period.

Chapter Three gives a critical account of the political and economic literature on the genesis, operation and evolution of the contemporary Ukrainian oligarchy, identifying in the process opportunities for original research. As an aid both to research design and empirical explanation, meanwhile, Chapter Two outlines a theoretical framework for conceptualising the links between economic and political power in Ukraine, in which the extractive politics of oligarchy as wealth defence (Winters, 2011) is conceived as feeding into economic practices unconducive to general economic prosperity (Acemoglu and Robinson, 2012).

Both the choice and ordering of the topics of the empirical chapters are thus conditioned by the theoretical framework of Chapter Two, as well as the "currency flow" model depicted above in Infographic 1.1 above. Specifically, they are conditioned by the ideas of the primacy of political institutions, of political rules affecting economic ones, and of wealth—the power resource characteristic of oligarchs, conceived as the driver and end-goal of the cycle of institutional reproduction—as the concept that, running through the empirical chapters, threads them together. At a more concrete level, a link between

Rada and energy chapters is the implied exchange of a widening of politically licensed rent-extraction opportunities (Chapter Six) in return for increased support in the legislature from MPs assumed to be materially linked to leading oligarchs, following the formation of the Hroysman administration in April 2016 (Chapter Five).

The first half of each of the empirical chapters aims not only to develop the data and make explicit the sources and methods used, but also to situate the analyses of the second half of each in their appropriate intellectual context, indicating thereby the broader academic conversation to which my investigations add. One purpose, therefore, of my brief assessment of Thomas Piketty's *Capital in the Twenty First Century (2014)* early on in Chapter Four is to align my analysis of the wealth of the richest Ukrainians with the relatively recent re-emergence of wealth as a topic of academic study, connected in part to the unexpected international success of Piketty's book. Another aim is to establish something of the approach and to explain some of the specialised terminology of modern studies on wealth inequality. In Chapter Five, an account of the position of Rada within Ukrainian politics, alongside modern conceptions of post-communist political informality, performs a similar role for my examination of material power as an informal mode of political influence in contemporary Ukraine. A brief outline of "old" institutional economics, originally written for Chapter Six with the same goal in mind, was relocated to Chapter Two in order to follow my exposition of a "new" institutionalist theory of prosperity. At the end of each empirical chapter, on the basis of its key findings, I answer the corresponding research question and derive some broader conclusions about the operation of the Ukrainian oligarchy and its economic side-effects.

Concluding that the main economic effect of the institutional production of Ukrainian oligarchy is through the establishment of a persistent negative feedback loop between low state capacity and low investment, the final chapter of my dissertation (Chapter Seven) depicts and explicates a proposed "model" of the interconnection between the capacities, practices and processes of Ukraine's political economy regime, envisaged schematically as a "currency flow", or circuit, of wealth and power (as in Infographic 1.1). Along with a recap and synthesis of the main findings of my research, this, in turn, paves the way for a revised definition of **the Ukrainian oligarchy as an institution habitually reproduced by its informal extractive political and economic practices, interconnecting at regional, national and international levels, motivated and facilitated by wealth**. This alternative definition of the oligarchy as a process rather than a relational structure (as at the start of this chapter) is a key result and contribution of the study as a whole. At the end of the chapter, I elaborate briefly some suggestions for further research on this topic.

X. Contributions

Overall, to the academic literature on the dynamics of informally dominated post-communist political and political economy regimes, my dissertation adds a detailed, integrated, and internally comparative case study of Ukraine. Individually, the empirical chapters contribute useful original findings and perspectives to the literatures on:

- comparative international wealth inequality;
- the politics of extreme wealth inequality, with the Ukrainian elite as an illustration;
- the operation of parliaments in post-communist regimes, and their systemic role, with the Rada as an example;
- informal economic practices, by way of a detailed, contextualised comparative analysis and taxonomy of rent-extraction schemes in the Ukrainian gas sector.

XI. Wider implications of the research

The cyclical, or “process” conception of institutional reproduction developed here, and represented in the diagram above, offers a fresh angle—of “political” materialism—on the problems of economic and democratic development in countries dominated by wealthy elites, where economic and political activities overlap more extensively than in the liberal democratic West. My research suggests that, just as the continuance of the Ukrainian oligarchy is not essentially the outcome of the individual moral failings of its leading beneficiaries, so the inability of successive “de-oligarchisation” drives to dismantle the oligarchy as a ruling institution in Ukraine is not mainly explained by an absence of political will on the part of political leaders, but is rather the outgrowth of long-established elite and societal norms and values that have become institutionalised, habitual, ingrained. The "combined" theory of oligarchy and institutional prosperity proposed in Chapter Two, meanwhile, suggests a possible way of linking this mode of politics to Ukraine's low living standards, by way of the poor economic outcomes that it tends to foster.

Outside of Ukraine and eastern Europe, my dissertation has broader relevance to the study of the interaction of politics and economics. This is because the kinds of materially driven informal political and economic practices that go on relatively openly in Ukraine may be better hidden elsewhere. Study of the operations of the Ukrainian oligarchy therefore offers a guide on what to look out for, of the kinds of practices that could be investigated elsewhere. An example from the experience of contemporary Britain might be the award of government contracts to ministers' personal or business acquaintances for the supply of personal protective equipment (PPE) during the covid-19 pandemic (Kinder et al, 2020).

F. Methodology, methods, data sources, ethics and "research journey"

XII. Methodology, theory and epistemology

In working out my approach to this study, I drew especially on the guide to social science practice and research design by Henn, Weinstein and Foard (2009). Alongside this, I also used two works on the philosophy of social science (Little, 1991 and 2016) and one on social theory (Inglis and Thorpe, 2019). Unless otherwise stated, the account below is based on these sources.

In terms of methodology, the approach I adopted was conditioned both by the subject matter (an alliance of power arising from structured economic inequality and positional power in the state) and by my attempt to conjoin two theories into a "tailor-made" framework for examining the political economy of contemporary Ukraine (Chapter Two). In the first theory, oligarchs are conceived as wielders of material resource power (wealth), whose politics are based on wealth defence. The second is a general theory of prosperity in which economic rules are conditioned by political institutions. Both can be considered as "rational actors" approaches to social explanation, in which people are assumed to pursue the course of action that they believe will benefit them most, given their environmental and institutional settings. The shared approach renders the two parts of the joint theory compatible conceptually, and fits with a broadly realist epistemology, as well as the data-based methods of analysis, of which I make use.

<u>XIII. Methods, data sources, collection and preparation; possible pitfalls</u>

<u>i) Data collection and methods</u>

One of the main methods that I use in my research is simple **statistics**. This required the collection of economic, political and financial data from a variety of international and Ukrainian official and private sources, including the IMF, the World Bank, Credit Suisse, Forbes', the World Inequality Database (WID), the web archive of the Rada, the National Bank of Ukraine (NBU), the Ukrainian State Statistical Service (USSS), a number of Ukrainian think-tanks, and Focus, a Ukrainian business website. For many of the analyses, I used Stata, a statistical software package that is widely used in social science research, both to transform variables in order to address specific research questions and to perform statistical operations. Alongside statistics, however, I also use <u>document analysis</u> of official, journalistic and think-tank materials. Moreover, in the final empirical chapter on energy rent schemes, I take a contextual, <u>case study</u> approach.

<u>ii) Broad principles behind my choice of data sources</u>

The **documentary sources** that I used were chosen on two main criteria. The first was their provision of sufficiently detailed coverage of the topic of interest for my research (supplying information on the identities of Rada deputies identified by Ukrainian investigative journalists as being aligned with leading oligarchs, for instance). A second was the reputation for reliability of the reporting organisation. For example, as a relatively new organisation, set up in the wake of the Euromaidan revolution of 2013/14, the National Anti-Corruption Bureau of Ukraine (NABU), whose reports are the main source for the details of one of my three post-Euromaidan gas scheme case studies, has a better reputation for integrity than most other Ukrainian law-enforcement bodies. Of the news outlets, on the same basis, I frequently used *Ukrayinska Pravda* and *Novoye Vremya*, two well-respected, local-language, web-based news and news analysis websites. Of the Western newspapers, I often relied on *The Financial Times* (UK) to provide or support certain details of my accounts. The same principle was employed in my use of the special reports of local think-tanks—such as the Ukrainian Institute for the Future (Andrusiv et al, 2018) and the Institute for Economic Research and Policy Consulting (Burakovsky et al, 2018)—and international financial organisations.

Where possible, important aspects of the "synthetic" accounts that I produced from a critical reading of my main sources were "triangulated" against other sources. This can be seen, for instance, in each of the case studies of post-Euromaidan gas rent-extraction schemes in Chapter Six, but also on a reported Vienna meeting between Petro Poroshenko and Dymtro Firtash—interpreted as paving the way for an alliance of their respective business-political networks—ahead of the 2014 presidential election.

While similar criteria were applied to my selection of post-Euromaidan rent-extraction **case studies**, some additional ones were also used. Most obviously, each scheme had to have been run in the gas sector, in order to make it comparable with the earlier, large-scale gas intermediary schemes. Second, schemes were chosen to illustrate different modes of the operation of energy rent-extraction schemes by Ukrainian elites, so that, between them, the case studies might produce a fuller picture on the rent-extraction process, built up from different angles. Lastly, the reappearance between chapters of key figures working within Ukraine's political economy system—most clearly, in the persons of Oleksandr Onyshchenko and Oleksiy Malovatskyi—was an additional attractive feature in my choice of schemes, as long as the other criteria were met. This is because, by drawing attention to individual personnel links between "extractive" political practices in the Rada and extractive economic practices in the energy sector, they exemplify at the micro-level the connecting sinews of the oligarchy as a political economy institution across more than one of its dimensions—specifically, between political or judicial influence and links on the one hand and access to gas rents on the other.

Alongside the comparison of the operational and institutional features of historical gas-sector rent-extraction schemes and post-Euromaidan schemes of Chapter Six, a second **internally comparative organisational element**, built into to the research design of the dissertation, is structured around a contrast between the four-year period of the Yanukovych presidency (2010-13) with the four years following his political demise/ downfall (2014-17).

<u>iii) Possible pitfalls</u>

When using official statistics and documents, it is important for a researcher to be aware of the pitfalls they may face. This means approaching data sources critically, in at least two senses. In the first, more particular sense, the researcher should check not just on the broad reliability of the sources and data they plan to use, but also ask themselves whether an indicator is the right one for measuring the concept in question (in my case, for example, wealth as material resource power), or whether it needs to be developed or transformed in some way first in order to do the work required (Henn, Weinstein and Foard, 2009, p. 58). It could be argued, for example, that domestic business wealth does not represent all of the wealth at the disposal of economic actors (I address this point directly in the conclusion to Chapter Four). In the second, more general sense, it means being aware that documents and statistics are not “neutral” facts unproblematically corresponding to, and revealing, a true picture of the social world. Rather, they are themselves an outcome of social processes, in definite societies, mediated and made by social actors for their own purposes. These purposes are unlikely to align perfectly with those of the academic researcher (Henn, Weinstein and Foard, 2009, p. 124).

In the political context of document production in Ukraine, for example, when attempting to trace the reproduction and reconstruction of elite networks following the Euromaidan events, what should the researcher do to ensure that business-political links reported in local investigative media outlets are not themselves “political technology”? That is, that they are not disinformation placed and paid for by one powerful political actor to discredit another?[1] One method to attempt to address this is to verify (or "triangulate") information using a second source. Although the effectiveness of this approach may have been compromised to some extent in the age of the internet and 24-hour news—that is, with many outlets reproducing from one another the same mistaken information, unchecked, for example—it does not mean that the method cannot be used. As explained above, it is a method that I use in Chapter Six to support aspects of my accounts of the operation of rent-extraction schemes. Rather, it calls for a degree of consideration about the possible implications of the changing social-technical context for its effectiveness as a research technique. A second approach could be to check the business and political associations of the owners of the media outlet in which the information appears, to try to be alert to any hidden political agendas.

More broadly, I am aware of the many criticisms of the "rational actors" approach to social explanation emanating from rival traditions of social theory. For interpretivists, for example, rational choice theories fail to produce sufficiently meaningful explanations of social action (Little, 1991, p. 41). For structuration theorists, the rational choice approach overemphasises the role of conscious intention in the completion of day-to-day social routines (Inglis and Thorpe, 2019, p. 136). My sympathy with such criticisms, already present at the start, only grew in the course of my research. By inclusion of document analysis, as well as the use local sources, alongside case study elements into my study, as a way of fleshing out and contextualising statistical findings, I aimed to address these issues.

XIV. "Research journey": use of qualitative materials alongside quantitative ones; limitations of each

How, then, within a framework of empirical analysis broadly informed by a "rational actors" approach to social explanation, do I make use of the qualitative materials selected, alongside some of the quantitative, statistical

[1] This is a point I make in relation to the release of parts of Yanukovych's "black ledger" accounts in the opening section of Chapter Five.

analyses? Also, how does the use of these materials affect my analysis? What do they add?

First, the deployment of local documentary materials can add—from the inside, so to speak—useful insights on the meaning and interpretation of the results of statistical analyses. An example in my dissertation is the use of elements of the analysis of journalists from *Ukrayinska Pravda* on the composition and workings of parties of the eighth convocation of the Rada (Romanyuk and Kravets, 2016a, 2016b, 2016c, 2017a, 2017b, 2017c, 2018) in elucidating aspects of the voting patterns described statistically in Chapter Five. Sometimes, however, the contribution of such materials can be more substantial. This is the case with my use of the (anonymously written) editorials for the annual Focus Ratings rich lists, which suggest a range of international and domestic developments as the plausible causal factors behind the “dilution” of the wealth of the very rich, relative to Ukrainian society, in 2010-17—one of the key findings of Chapter Four (Focus Ratings, 2007-18).

While the process of investigation of the first two empirical chapters, on wealth and Rada voting, brought home to me the power of even the simple statistical methods that I use, it also underscored some limitations. Probably the most important of these is that the discovery of a pattern in the data, or of a relationship between variables, is not in itself an explanation, in the absence of the provision of a plausible causal mechanism, which other techniques, such as a comparative method or contextualised case studies, can help to suggest (Little, 1991, Kindle location 4,891).

It was my experience of researching the first two empirical chapters, therefore, that encouraged a more thoroughgoing change in approach to the more contextualised, case study investigation of Chapter Six, influenced also by my reading on the "old” American institutional economics (see Chapter Two). This change of direction had a crucial effect on the overall conclusions of my project. In particular, the shift in approach, informed by the concepts such as evolution and habit from “old” institutional economics, permitted the development of both my “process” re-definition of the Ukrainian oligarchy and a “thickening” of the “rational actors” concept of wealth defence. By “thickening”, I mean a re-conceptualisation of the Ukrainian oligarchy as an evolving political economy institution, motivated and facilitated by the control and accumulation of wealth—not in the abstract, but rather as mediated through local, historically developed, shared cultural-institutional understandings, which are manifested as, and reproduced by, a relatively restricted range of routine, reusable political and economic practices. This is probably not too far from Winters' original intention, when he describes oligarchy as the way in which wealth defence works within a specific political-institutional setting (Winters, 2011, pp. 6-7). One of the things I do in this dissertation, then, is to show some aspects of what the specific institutional context of wealth defence looks like in contemporary Ukraine. In turn, this re-conceptualisation allows, as I argue in Chapter Seven, a more convincing explanation of certain developmental conundrums—in particular, why Ukraine since independence has been unable to develop a fully-fledged rule-of-law state, even though the holders of concentrated wealth, as a powerful group within the elite, would seem to have had a strong material incentive to ensure the development of one.

Despite the advantages of this "institutionally thickened" notion of rational action, and the value of the concept of habit—one of the keys to understanding the different process of institutional reproduction—the qualitive methods that I use in my study also have limitations, of course. In contrast to results of inferential statistics, such as my chi-square analysis towards the end of Chapter Five, their results may not be applicable in other settings—that is, they are not "generalisable". This means that the results of rent-extraction case studies cannot be assumed, without further investigation, to hold for patterns of operation of rent-seeking schemes elsewhere, or in other sectors. More broadly, if my dissertation as a whole is taken, as I intend, as a case study of a post-communist political economy regime dominated by informal practices, the findings cannot be as assumed to apply outside of Ukraine. This could be scrutinised, of course, through international comparison—most fruitfully, probably, with contemporary Russia.

It can be seen from the above account that, in the course of my study, I moved more in the direction of a mixed methods approach than I had originally intended, as new questions and new problems arose, with this outcome driven largely by the needs of the research topics and the problems encountered as the research process developed.

Chapter Two. Extractive politics encourages extractive economics: wealth defence and institutional prosperity as a conjoined political economy framework for investigating the contemporary Ukrainian oligarchy

A. Introduction and “rational actors” approach

What is the connection between oligarchs’ wealth and the failure of reforms in modern Ukraine to develop the political and economic institutions associated with prosperity? As an aid to answering this question, I propose below an alignment of two theoretical frameworks. The first outlines a distinctive politics of oligarchy (wealth defence) that arises from minority material power (Winters, 2011). The essential idea is that extreme wealth offers the super-rich capacities to deal with the special threats they face and that, in interaction with political institutions, this produces characteristic forms of political rule. The second is a general theory of economic prosperity in which political institutions have primacy (Acemoglu and Robinson, 2012). As with the concept of wealth defence, the institutional theory of prosperity provides a general framework for interpreting patterns of political and economic behaviour based on the “logic” of the incentive structures that political and economic actors face.

One approach to political economy is by way of the different schools of thought that comprise it, of which classical, neo-classical, Keynesian, institutional, Marxist and, more recently, heterodox, are the most well-known. Each school offers a distinct account of what politics and economics is, and of how the relationship between them is best understood at a general level. In this light, the idea of the primacy of political rules in the development theory of Acemoglu and Robinson could be seen as a reversal of a central motif of classical economics, which, rising in tandem with European capitalism in the eighteenth and nineteenth centuries, tended to view social development and social order less as a result of political decisions, as with the earlier mercantilist school, than as an unintended outcome of the interaction of the private interests (Caporaso and Levine, 1992, p. 26). Specifically, the “Why Nations Fail” approach of Acemoglu and Robinson is closest to “new” institutional economics, which emphasises the operation of guiding and constraining organisational rules and norms, in line with “old” institutionalism, but with assumptions about individuals’ motivations drawn from neo-classicism (Stilwell, 2012, pp. 226-227). The distinction between “new” and “old” institutional economics is elaborated further towards the end of this chapter.

Both the theory of wealth defence and of institutional prosperity, then, are species of the “rational actors” approach to social explanation, in which the actions of goal-seeking individuals, conditioned by their natural and institutional settings, are conceived to produce recurring outcomes at the aggregate, social level (Little, 1991, pp. 39-44; Inglis and Thorpe, 2019, pp. 119-122, 136-138). This way of thinking is most readily associated with the theoretical agenda of neo-classical microeconomics. However, its roots stretch back at least to Thomas Hobbes in the seventeenth century, in whose political philosophy, influenced by his traumatic experience of the English Civil War, social relations are conceived—in the absence of the elective, externally imposed order he proposes—as a perpetual struggle over scarce resources (Inglis and Thorpe, 2019, pp. 120-121). Moreover, it is also the methodological strategy adopted by other branches of social inquiry, such as collective action theory, as well as certain readings of Marxism that prospered for a time from the mid-1970s. An example of the first is Mancur Olson’s work on the failure of groups to pursue their collective interests effectively because of incentives for rational group members to become “free riders” (Little, 1991, pp. 59-62). An example of the second may be Robert Brenner’s study of the development of capitalist farming in England rather than France in the early modern period as a result of the different property relations in place, conditioning the incentives and capacities to introduce a radical reorganisation of agricultural production (Little, 1991, p. 124). In the case at hand, the commonality of approach is a factor that renders the theories of oligarchic politics and “new” institutional economics compatible.

The combined theories encourage greater precision in the formulation of key research concepts, questions and hypotheses. In combination, they shed light on the possible mechanics, or links in the chain, by which oligarchic politics in Ukraine might affect economic outcomes. While one part of the joint theory sets out some channels through which the material resource power of oligarchs can be translated into political-institutional influence, the other traces the process by which self-interested minority politics fosters rules and behaviours that lead to poor national economic policies and growth outcomes. The two theories fit together for research purposes if the modern Ukrainian oligarchy—the institutional fusion of very rich business leaders and their business networks with the electorally successful political elite and their state-administrative networks—is conceived as being constituted by the "extractive" political and economic operations (this term is explained below) that it runs.

The "rational actors" approach is not unproblematic, however. A persistent criticism of it is that, by abstracting from cultural specifics, it fails to produce sufficiently meaningful explanations of social action. For this reason, rational choice models are sometimes disparaged by critics as "thin" social theories, where "thick" implies "detailed accounts of norms and values, cultural assumptions, metaphors, religious beliefs and practices" (Little, 1991, p. 41). My goal has been to address this criticism, at least in part, by drawing on the reports of local journalists and think-tanks to "flesh out", concretise, contextualise—and so help to explain—the results of statistical analyses, while a case study approach drawing on these contextualising practices is adopted for the analysis of Chapter Six.

B. The theories of wealth defence and institutional prosperity, and their applicability to contemporary Ukraine

I. Winters' theory of oligarchy

i) Against the "Italian school"

The theorisation of oligarchs and oligarchies as a distinct mode of minority political rule based on concentrated wealth has undergone a revival in recent years, a number of such studies developing out of the analysis of Suharto's Indonesia. Winters (2011), for example, attempts to elaborate a theory of oligarchy along these lines that is applicable across historical periods and political systems. He sees elite theories of the early 20th century—associated with the "Italian school" of Vilfredo Pareto, Gaetano Mosca and Robert Michels—as having blurred the distinction between oligarchies and other kinds of minority rule. Thus, he argues, Michels' well-known "iron law of oligarchy" is not about a wealth-defined oligarchy at all, but rather the tendency of any large organisation to evolve towards minority rule (Winters, 2011, p. 6). Hoping to undo the definitional and analytical confusion he thinks is the result, Winters proposes to distinguish oligarchs from elites by means of the different kinds of “power resource” on which their social and political influence depends, and which condition the strategies that minority political actors are able to pursue.

ii) Power resources theory and the concept of power

In political sociology, power resources theory comes under the rubric of a “conflict theory”. The implied contrast is with the “consensus” models, primarily functionalism, which, drawing on ideas of biological evolution, tend to stress the necessity of the separation of social roles in achieving social order (Inglis and Thorpe, 2019, p. 35). As developed by Walter Korpi and Michael Shalev, power resources theory looks at the ability of the working class in advanced capitalist societies to offset through collective action some of the impact of structurally generated economic resource inequality. In particular, the strength of the organised working class, relative to organised business, is held to explain variations in “welfare state regimes” and patterns of income redistribution (van den Berg and Janoski, 2005, pp. 78-81).

For his analysis of oligarchy, Winters adapts this broad approach in the following way. “A power resources approach,” he writes, “emphasises particular capacities, instruments or positions that individuals hold…and use for social and political influence.” (Winters, 2011, p. 13). Although power resources theory is relatively recent in origin, the concept of power involved in Winters’ account of it is a straightforward and traditional one of the ability to realise a desired outcome, of power over others. In large part, the notion of power employed is dictated by the subject matter, which concerns differential political influence based on extreme material inequality. This is a notion of concentrated wealth as an individually wielded political capacity arising from hierarchical socio-economic structures. An implied contrast is with the idea, pioneered by Michel Foucault, a French social theorist, of power embedded in identity-shaping cultural practices and products, and especially authoritative bodies of knowledge (such as medicine or psychiatry), that generate restrictive expectations, and self-understandings, of behavioural norms (Drake, 2010, pp. 41-43).

From this contrast it can be grasped that the concept of power is a central but contested one in the fields of both politics and political sociology. Its role in political economy is more varied and perhaps controversial, however. Most obviously, a structural conception of class conflict and class power rooted in the unequal distribution of productive capacities, and the clashing material interests that these confer, is at the heart of Karl Marx's theory of social change (Marx, 1994, pp. 107-112, for example, is a vivid passage from *The German Ideology* of 1846 outlining this view). From a more social democratic perspective, JK Galbraith, a US institutional economist, saw the operation of power in the ability of large corporations to "transcend" the constraints of market forces that smaller firms remain subject to, through their influence on the prices and costs of their products, on consumer tastes and on government policy (Galbraith, 1973, pp. 4-5). Neo-classical economics, in contrast, tends to resist the notion that market exchange, as voluntary because mutually beneficial, could involve power relations (Caporaso and Levine, 1992, pp. 151-152, p. 171).

The contribution of Steven Lukes to the debate on the nature of power has proven influential. Expanding on an earlier political science view that the operation of differential societal power could only be examined in observable open conflict, he develops conceptually two additional dimensions, of hidden and latent conflict, as ways for understanding the operation of power unseen. On the second dimension, of hidden conflict, power may take the form of agenda-setting, or the capacity to exclude some issues from consideration. The third, latent dimension involves the powerful "getting others to want what they want them to want, shaping their perceptions, cognitions and thus preferences" (Lukes, 2013, p. 749), attaching to power a meaning close to the concepts of ideology and discourse, in which individuals internalise beliefs and norms that run against their own interests, thereby perhaps ensuring that no conflict occurs.

For Korpi, power is a relational concept, so that the deployment of a power resource, viewed as a capacity, is what permits one social actor to affect the behaviour of another through the application of penalties or rewards (Korpi, 1998, p. 42). While a focus on the open, observable exercise of power in decision-making invites a causal mode of explanation, Korpi argues, an analysis that starts from a consideration of actors' power resources supplements this with an intentional, or future-oriented means of explanation more appropriate for underpinning Lukes' hidden and latent dimensions of power. In particular, he suggests, a consideration by rational social actors, not only of their rivals' possible goals and expectations, but also of the power resources they have at their disposal to achieve them, can lead to strategic decisions to avoid direct conflict (Korpi, 1998, pp. 41, p. 45). Korpi therefore sees power resources theory as coming to the explanatory aid of Lukes' supplementary dimensions of conflict by adding motivational and strategic modes of explanation to the causal approach appropriate for explaining open, visible conflict. (In Winters' theory of oligarchy, it is the motivation of wealth defence, therefore, that offers a possible explanation for outcomes of the operation of hidden and latent power.)

iii) Oligarchy as the politics of wealth defence

Great wealth, Winters argues, is the power resource on which oligarchs characteristically depend, while wealth defence is both the distinctive motivation behind oligarchs' political activity and the "objective" basis of their common interest. On Winters' definition, oligarchs are "actors who command and control massive concentrations of material resources that can be deployed to defend or enhance their personal wealth" (Winters, 2011, p. 6). He defines oligarchy as "the politics of wealth defence by materially endowed actors" (Winters, 2011, p. 7). The definition of oligarchs is fixed—that is, it is independent of historical or political context. In contrast, the definition of oligarchy allows for variation, as the form that the process of wealth defence takes can change, depending on kind of threats faced and the political-institutional context.

As with other holders of concentrated societal power, oligarchs comprise a small minority of a society's population. However, because of their wealth, and the marked socio-economic stratification that it implies, they face specific threats, which emanate from different positions in the social structure. Specifically, concentrated wealth tends to generate social and political conflict with those further down the socio-economic structure and to attract the unwanted attentions of more powerful actors. “Vertical” threats can come from below, “as when the poor attack the rich… and redistribute their property” (Winters, 2011, p. 23), or from above, in the form of actors more powerful than individual oligarchs, such as the state or a ruling autocrat. “Lateral” threats emanate from rival wealth holders, if “one oligarch encroaches on the holdings of another” (Winters, 2011, p. 23).

From this continual exposure to property contestation arises the need for enforcement of property claims. Although the concentration of wealth brings with it specific challenges, it also affords its holders specific capacities to meet these challenges—that is, the ability to buy security or other kinds of defensive services. This makes wealth a power resource that is uniquely resistant to confiscation or redistribution. The quantitative material basis of oligarchic behaviour and influence constitutes a qualitative difference that distinguishes oligarchs from the holders of other types of power resource, some of which help to define the social and political elite. Winters lists other power resources that individuals might possess as follows.

- Coercive power. The use of force has traditionally been central to maintaining both property claims and systems of minority political rule, while a legitimate monopoly on the means of coercion is an essential feature of the modern nation state on the influential definition of Max Weber, a founding figure in modern sociology (Giddens, 1971, p. 156).
- Official position. This offers leading office holders decision-making power over the resources and actions of large institutions, such as government, the civil service, big business and labour organisations.
- Mobilisational power, or an individual’s capacity to “shape the attitude and sway the actions of actors far beyond their circle of personal associates” (Winters, 2011, p. 7). This seems to overlap in some ways with Weber’s idea of the charismatic leader, who is able to secure political consent because of the special qualities they are perceived to possess (Giddens, 1971, p. 160).
- The right of political participation. This can take the forms of universal suffrage and liberal political freedoms (such as the right to vote or to express political opinions). However, Winters argues that, historically, the

> social and political power of this resource was greatly enhanced by exclusionary mechanisms. From the perspective of the individual political actor, it is a power resource that is of less significance the more socially dispersed it is—that is, the more that liberal democratic practices have spread and taken hold.

Winters conceives of his theory as reconnecting with an older tradition that focuses on the problems of oligarchs and oligarchy as materially founded. However, the definition of oligarchy as the "rule of the few"—still widely deployed in the academic literature (Orum and Dale, 2009, p. 102; Havrylyshyn, 2017, p. 203)—is a misconstrual of the analytical basis of Aristotle's typology of government constitutions, Winters contends. This is because Aristotle makes clear that the distinction between the few and the many is itself materially determined, as "the number of the governing body…is an accident due to the fact that the rich everywhere are few and the poor numerous" (Winters, 2011, p. 7).

Moreover, Winters shows, a range of seventeenth- and eighteenth-century political thinkers and practitioners grappled with the problem of reconciling rising aspirations for formal political equality with the potential threat to private property that this was thought likely to entail. An explanation for the rise of the modern state, characterised by the concentration of society's coercive means, is seen in part in its role as guarantor of property rights amid the development of political movements and regimes based on ideals of popular sovereignty. On this, Winters quotes Adam Smith, the foundational figure in classical economics: "Civil government, so far as it is instituted for the security of property, is in reality instituted for the defence of the rich against the poor." (Winters, 2011, p. 29.)

From two further distinctions linked to the concept of wealth defence, and a stylisation of two dimensions of oligarchic political activity stemming from it, Winters constructs a typology of oligarchy in general. The first distinction is between property claims and property rights. While individual oligarchs are obliged to enforce their property claims personally against rival claims arising from within the community, property rights are enforced impersonally on behalf of the community. The second distinction is made within the concept of wealth defence between property defence (actions to secure property claims) and income defence (actions to maintain revenue accruing from wealth holdings). A facsimile of Winters' chart is reproduced below (although I have retitled it to fit in with the format of my dissertation, I have included a reference in the source). On this chart, the first, horizontal dimension depicts the extent of oligarchs' direct involvement in coercive activities to secure property claims. The gradation runs from fully armed to fully disarmed, with partial oligarch disarmament and the hiring of coercive force distributed along the conceptual line between. The second, vertical dimension looks at the transition from individual to collective forms of political rule that oligarchs might adopt to defend their property holdings. From the possible combinations on these dimensions, four distinct types of oligarchy are identified—warring, ruling, sultanistic and civil—corresponding to positions along the two dimensions represented by the four corners of Figure 2.1.

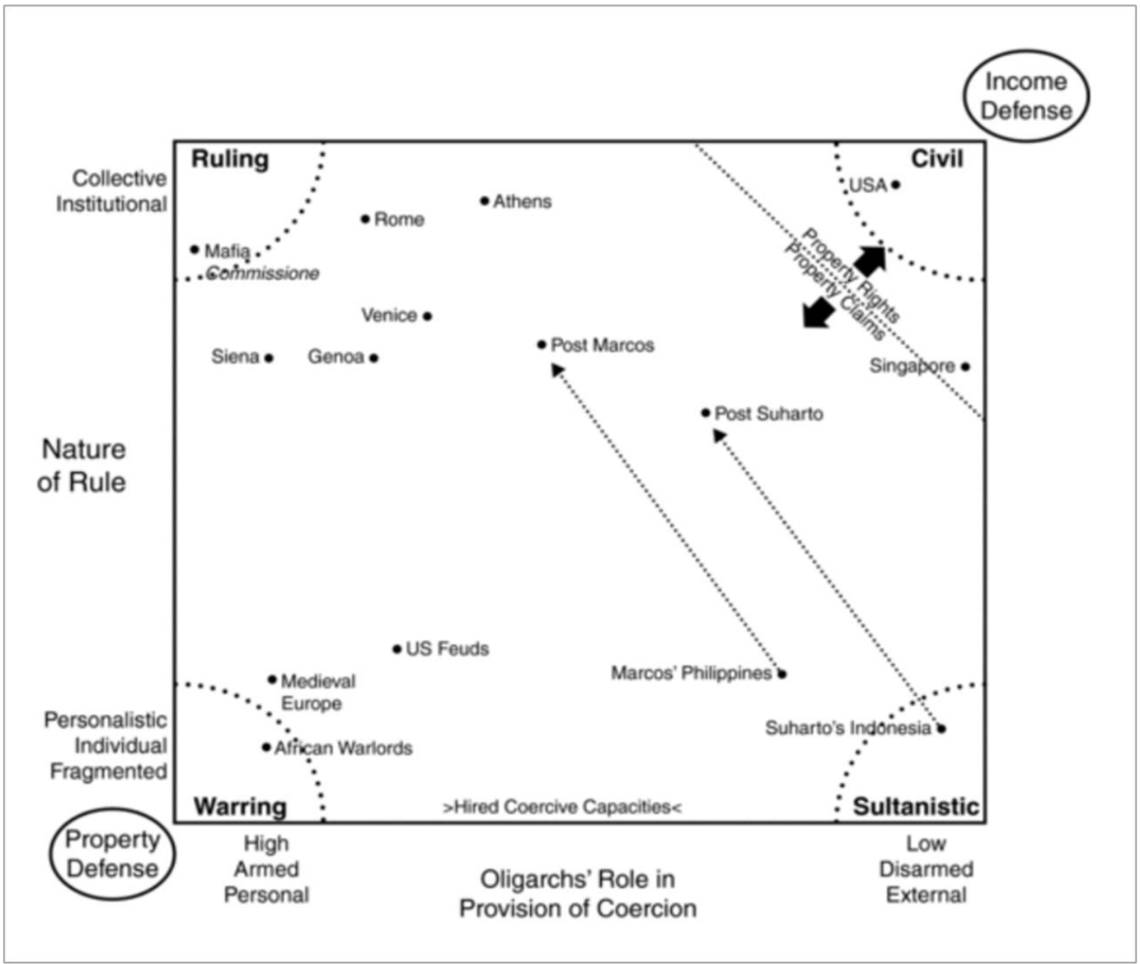


Figure 2.1: Winters' "Oligarchies and wealth defense". Source: Winters (2011, p. 34). Title adapted in order to make attribution clear. © Jeffrey A. Winters 2011.

Oligarchies can be described as warring when oligarchic political power is fragmented and each individual armed oligarch takes a direct, personal role in coercive defence of the property they claim. The examples that Winters' gives are of warlords in contemporary Africa and of feudal lords in medieval Europe (bottom left corner in Figure 2.1).

In ruling oligarchies, by contrast, defence of property claims is more collective and institutional. In the less stable varieties—such as the mafia "commissions" initiated by Lucky Luciano (an American mafia boss) in the US in the 1930s and in Sicily in the 1950s—institutional remits may be quite limited, perhaps aiming only to keep in check conflicts between rival mafia gangs. The institution for co-ordinating collective rules may not command any permanent coercive capacity of its own (Winters, 2011, pp. 69-72). In its more stable forms, the organisations and rules of oligarchic control are more extensively developed, with the oligarchs perhaps disarming partially and pooling some resources to fund public coercive bodies for common property defence. Winters offers as examples classical Athenian citizen democracy in the 5th-4th centuries BCE (Winters, 2011, pp. 77-90), and Republican Rome, which lasted for about 500 years until 27 BCE (Winters, 2011, pp. 90-121). These appear towards the top left of Winters' chart.

A sultanistic oligarchy, such as Suharto's Indonesia (1966-98), is one in which a single wealth-holder monopolises the means of coercion, with their survival in this role depending on success in enforcing the property claims of the super-rich as a whole (bottom right corner in Figure 2.1)

The final form of rule, depicted in the top right corner of Winters' typology, is civil oligarchy. Under this arrangement, the switch to an impersonal, institutional property rights regime—represented on the chart by the movement across the straight dotted diagonal line towards the upper right corner—changes the balance of threats and incentives facing individual wealth holders, so that the nature of their political engagement evolves. Direct oligarchic rule becomes unnecessary for wealth defence. With the transition from property claims to property rights, taxation becomes the main threat to the holders of concentrated wealth, encouraging a shift from property defence to income defence. Oligarchs' operational emphasis changes from avoiding confiscation to avoiding redistribution, shifting the burden of property defence—of which oligarchs are the main beneficiaries—to those further down the wealth-income hierarchy. Rather than focusing on procuring coercion and payments to a network of officials, as when the rule of law and property rights are weak, the emphasis shifts to obtaining the services of specialised professionals[2]. The rise of civil oligarchy is a relatively recent historical development, occurring alongside the rise of the modern nation state, and especially the liberal democratic state, in the course of the past 200 years or so. Winters' example is the modern-day US.

A final complicating element in Winters' analytical framework relates to the ability of collective bodies of oligarchic rule to restrain their strongest members. That is, whether they are able to ensure effectively that all members follow the collective rules, or whether some actors are able to defy and disrupt them. He describes this as the difference between "tame" and "wild" oligarchs (Winters, 2011, pp. 36-38). Following his Enlightenment-era forerunners, Winters argues that the placing of property rights at the heart of representative polities has generally prevented oligarchy and democracy from clashing. However, in the transition from authoritarian rule, he suggests, when legal systems are likely to be weak or underdeveloped, a lack of focus on oligarchy as a distinct phenomenon, based on financial power and the politics of wealth defence, has blurred understanding of how "wild" oligarchs can disrupt the democratisation process. This insight has the potential to bring a fresh perspective to the practical problems faced by some east European countries, and especially former Soviet countries, in the building of enduring democratic institutions since the fall of communism.

II. Application of oligarchic theory to Ukrainian politics

On Winters' analytical framework, modern Ukraine would probably fall within the rubric of a ruling oligarchy, albeit with some caveats. That is, some institutions of collective oligarchic rule, including informally understood behavioural norms, operate alongside personal and hired coercion of individual

[2] Such as lawyers, accountants and lobbyists, who are able to lighten their clients' tax burden.

oligarch's property claims (especially in the regions), and with the rule of law underdeveloped and sometimes selectively and politically applied. At the same time, democratic developments affect the political process through regular elections, which oligarchs must take account of, whether by attempting to sway the outcomes, insulate themselves politically from them or adapting to unexpected results. Moreover, the mode of political action of the very rich in Ukraine has developed from more direct to more indirect means of influence as the institution of the Ukrainian oligarchy has evolved, especially in response to episodes of serious political disruption—primarily, the Orange and the Euromaidan revolutions (Markus and Charnysh, 2017). Inexact, but potentially instructive, historical analogies for Ukraine's current system of informal political rule might include classical Greece, as well as Great Britain and the US in the eighteenth and nineteenth centuries. Nonetheless, in any analysis, key features of the informally dominated political system specific to contemporary Ukraine need to be elaborated and taken into account. Some that should be considered are as follows.

- Aside from reports of occasional, ad hoc meetings in the wake of an especially significant crisis (Matsiyevsky, 2018, p. 351), Ukraine's oligarchs appear to have established no special-purpose, overarching, national standing committee for the realisation of their collective political interests. Rather, a range of pre-existing state bodies in combination perform the function of an institution of collective rule (perhaps reflecting a statist political culture inherited from the Soviet and Tsarist eras) or venue for contestation, agreement and troubleshooting, including Ukraine's parliament, the Verkhovna Rada (the focus of Chapter Five), the presidential administration (Minakov, 2019, p. 232), and even Naftogaz, set up in the late 1990s to regulate and distribute energy rents between the dominant business-political networks (Balmaceda, 2013, p. 113).
- The distinctive structures of political power in contemporary Ukraine, which together are described as an oligarchy after the strongest component, tend to fuse official elite politics with big business, formal with informal codes of operation. In terms of Winters' "power resources",

its institutions bring together those with concentrated material power (oligarchs), proven mobilisational power (successful political leaders) and positional power (the holders of public and administrative office), with a considerable overlap between the three often existing in practice. That is, some wealthy business leaders have been successful politicians and/or held high posts in the state apparatus.

- The wealthiest business leaders achieve political influence through a combination of sponsored representation in state bodies; alliances with the currently most successful political leaders, whose associates occupy or are placed in key positions in the state apparatus (since important state posts may be treated as the spoils of political victory); and media dominance.
- The “Azarovshchina” of the Yanukovych presidency—or period in public office of Mykola Azarov, associated with the use of state financial institutions to extort private business—was unstable because it represented an attempt by a group within a group (Yanukovych’s “family” within the Donbas business-political group) to monopolise collective institutions as a means of augmenting the wealth of his personal, developing network base. This could be read as a failed attempt to move from a “ruling” towards a more “sultanistic” mode of oligarchic rule.
- Popular political participation, in the form of regular elections and civil society activity (the socially disbursed power of formal political rights, on Winters’ list), must also at least be reckoned with, even if this means an attempt to subvert or soften its practical political force. It helps to explain, for example, the extraordinary lengths, and expense, to which prominent oligarchs often go to defray potential electoral risks to their political influence (and so their ability to protect their wealth). This includes backing multiple candidates, and setting up fake parties to confuse voters in order to draw votes away from candidates backed by business rivals, for example. It also helps to account for some of the limitations on oligarchs’ political influence, which encourage them into alliances with political winners. This means, for example, that they are forced to adapt to sharp changes in political conditions following elections or major

episodes of socio-political disruption by forging alliances with the political victors. In short, the Ukrainian oligarchy has to take voters into account, albeit with parliamentary politics as one medium through which informal deals may be struck. This points to the Verkhovna Rada (parliament) as a central institution for the operation of both formal and informal politics in Ukraine.

But what is of value in oligarchic theory for the study of high politics in modern Ukraine, other than bringing to light some family resemblances? First, by honing in on wealth as the distinctive source of oligarchic power, the theory offers guidance on the sorts of behaviour that might be researched, as well as the institutional locations in which they might take place. In particular, it helps to focus inquiry on the possible financial mechanisms that the very rich use to exert political influence. In modern Ukraine, such mechanisms could include:

- Network payments by oligarchs to officials. For example, voting patterns in the Verkhovna Rada (parliament) could provide evidence of the continued operation of oligarch-linked networks in national politics since the Euromaidan.
- Electoral expenses of the 2014 presidential and parliamentary campaigns. The high cost of campaigns is said to have encouraged politicians to reforge ties with leading oligarchs following the turbulence of the Euromaidan events (Konończuk, 2016, pp. 15-16).
- Oligarchs’ media dominance, especially of TV.
- Offloading of the cost of collective security. This could be seen as a public good from which oligarchs benefit but do not pay (that is, through pooling of some of their own resources). Yanukovych’s boosting of the militia might be seen as a means of protecting oligarchic material power from possible contestation, following a rise in property predation during his presidency, enabled by state bodies (as in the so-called Azarovshchina, referred to above).
- The boosting of the means of domestic coercion alongside the running down of the army could be read as exposing the country’s wealthy business leaders to coercion from foreign oligarchic rivals.

- The hiring of private coercive force, often from sports clubs, as well as nationalist and Cossack groups.
- The channelling of oligarchs' wealth in tax havens abroad—as with the revelations in the Panama-Papers about the activities of President Poroshenko—seen as a means of dealing with the threat of wealth confiscation.

Second, oligarchic theory provides a framework for interpreting the mechanisms of political influence of the rich as means of wealth defence in conditions in which the rule of law, and so property rights, are weak.

Third, the theory raises interesting questions about the self-perpetuation of the Ukrainian oligarchy in its current "ruling" form. Specifically, what is it in Ukraine's political practice that hinders the transition to a fully operational rule-of-law system, and so to an impersonally enforced property rights regime from which the oligarchs as a group would benefit? (In theory, the very rich would benefit from the reduction in time and money spent enforcing property claims.) Might there be useful lessons for Ukraine from the historical experience of other counties, such as Great Britain and the US, that have already made the transition from ruling to civil oligarchy?

A final attraction of the application of oligarchic theory to Ukraine is that it prevents the presentation of oligarchy as something unusually dysfunctional or abnormal—that is, it helps to guard against the "orientalisation" or exoticisation of Ukrainian politics. Instead, it shows oligarchy as one of the historical and contemporary norms of minority political power, from which liberal democracy is a relatively recent, and perhaps temporary, deviation, within which forms of oligarchy, as the conversion of wealth into political influence to defend wealth, continue to thrive, albeit having taken on the less obtrusive "civil" political profile, reflecting a reduced necessity for big property owners to become personally involved in the coercion required for wealth defence (Winters, 2011, p. 24).

III. Why Nations Fail: Acemoglu and Robinson's institutional theory of prosperity

Winters' oligarchic theory brings fresh focus to the distinctive politics of minority material power holders. However, to turn its political sociology into a useful political economy for understanding contemporary Ukraine, the assumed causal connections between oligarchs' political practices and the expected economic effects should be made explicit. The institutional theory of prosperity (Acemoglu and Robinson, 2012) provides such a link. Drawing on a wide range of historical and contemporary examples to illustrate its propositions, the theory presents a relatively conventional set of rules and practices said to provide the economic incentives by which countries become rich. While making use of some of the standard assumptions, tools and terminology of neo-classical economics, the institutional theory of prosperity is more eclectic, promoting a model of economic development based on an institutionally embedded, dynamic market economy in which the primacy of politics is emphasised. "Political institutions determine economic institutions and, through these, the economic incentives and the scope for economic growth," the authors write (Acemoglu and Robinson, 2012, p. 91). Alongside the mainstream neo-classical school, then, this framework appears to show the influence of the ideas of Karl Polanyi (institutionally embedded markets) and Joseph Schumpeter (creative destruction).

The institutional theory of prosperity is an attempt to provide a general theory to explain why some countries have become rich and some remain poor. The case of the town of Nogales, which straddles the US-Mexican border, alongside that of North and South Korea, divided by civil war in the 1950s, are used to refute some prominent explanations for the persistent large disparity in per head national incomes globally. This includes geographical explanations, such as differences in resource endowment or climate; cultural explanations, such as the existence or absence of a strong work ethic; and the supposed ignorance of political leaders about the appropriate development policies (Acemoglu and Robinson, 2012, pp. 48-69). Rather, the authors propose an institutional explanation for the income divergence in the two parts of Nogales and Korea, with institutions conceived as the rules, practices and norms that affect political and economic motives and behaviour. They propose an "inclusive" combination of political and economic institutions to account for sustained economic growth and relatively high average incomes, contrasting this with an “extractive” institutional combination which, they argue, stands behind persistent poverty.

What is the difference between inclusive and extractive institutions? On political institutions, the authors draw the distinction based on the degree of participation and the existence of a functioning central state. In inclusive political institutions, power is relatively broadly spread and formally constrained (pluralism), while in extractive institutions it is narrowly held and unrestricted (absolutism). On its own, however, relatively socially dispersed power is an insufficient condition for an inclusive polity. For this, a central state performing a range of stabilising functions is required. The US is offered as a case of a country with such political institutions, but the designation seems to refer to liberal democratic polities in general. The authors summarise as follows: “We will refer to institutions that are sufficiently centralised and pluralistic as inclusive political institutions. When either of these conditions fails, we will refer to the institutions as extractive political institutions.” (Acemoglu and Robinson, 2012, p. 81.) Extractive political institutions “enable the elites controlling political power to choose economic institutions with few constraints or opposing forces” (Acemoglu and Robinson, 2012, p. 81). Examples cited of extractive political systems include the Soviet Union and the rudimentary coercive structures established by European colonists in the Caribbean island of Barbados in the seventeenth century.

Correspondingly, inclusive economic institutions, such as those in the contemporary US and South Korea, “allow and encourage participation by the great mass of the people in economic activities that make the best use of their talents and skills, and that enable individuals to make the choices they wish” (Acemoglu and Robinson, 2012, p. 81). To achieve this, several interlinked organisations and practices must be in place, as follows.

- Secure private property rights, including even-handed contract enforcement by way of an unbiased legal system.

- “Inclusive” markets with low barriers to entry, in which economic opportunities are realised through the right to choose a career or start a business.
- Entrepreneurial initiative is supported by the financial sector and domestic firms are allowed to join forces with foreign ones.

Between them, these rules establish the microeconomic incentives needed to set off the process of “creative destruction”, or dynamic and innovative macroeconomic growth, by which investment, invention and innovation drive productivity (yielding more outputs from the same or fewer inputs) and income growth. Invention and innovation are conventionally distinguished as the practical creation, as against the commercial application, of new devices, techniques and processes (Dadkhah, 2009, p. 224). Investment is closely related to the production of new technology, which boosts productivity across production inputs (land, labour and capital). Education, which adds skills and brings out talents, allows individuals to generate, adopt and operate new technology. Alongside inclusive markets, technology and education are among the “engines of prosperity” (Acemoglu and Robinson, 2012, p. 81) that are fostered by inclusive political and economic institutions.

Without such inclusive institutions, however, amid fears of property theft, expropriation or high taxes, the incentives to work hard, invest or adopt new technology are absent. In their place, political elites are able to tilt the economic rules in their own favour, at the expense of society as a whole. Methods of doing this could include the raising of barriers to market entry to limit economic competition, or the expropriation of resources. These are described as extractive economic institutions because they are “designed to extract incomes and wealth from one subset of society to benefit a different subset” (Acemoglu and Robinson, 2012, p. 76). The process of anti-social minority enrichment in turn provides elites with the resources to consolidate their political hold.

Alongside “pluralistic” institutions, the role of a strong central state is emphasised. It is viewed as crucial not only as an enforcer of basic law and order (and property rights) needed for commercial contracts to operate; or as a provider of public services, including education, necessary for economic opportunities to be grasped; but also as an economic regulator, and an economic actor in its own right (Acemoglu and Robinson, 2012, p. 76). This conception of the positive potential of government activity contrasts sharply with the market-constraining role attributed to government by some strands of neo-liberal thought from the 1970s, while sharing with it some basic features concerning individual motivation.

On the relations between kinds of institution, the authors argue for the primacy of politics. This is because politics determines the political and economic rules that obtain. But while jointly inclusive or jointly extractive political and economic structures reinforce one another, tending to system stability, a mix of inclusive and extractive institutions will be less sturdy. Thus, the drive for pluralistic polities will undermine extractive economic practices, while permitting and encouraging the development of competitive and accessible markets which set off dynamic economic development. However, economic change—and especially the characteristically modern, growth-sustaining “creative destruction” unleashed by systematic incentives to innovate—threatens elite economic interests, social status and political power. Social groups that benefit from “extractive” practices therefore often take pre-emptive political action to block change, although with varying results. An example is the opposition to early industrialisation among Europe’s landed aristocracy, in which the political struggle of the Russian and Hungarian upper classes was more successful—at least for a time—than their British counterparts (Acemoglu and Robinson, 2012, p. 85).

In conclusion, the authors state that “nations fail when they have extractive economic institutions supported by extractive political institutions that impede or even block economic growth” (Acemoglu and Robinson, 2012, p. 83). To escape such a situation, it would seem, forceful political activity promoting the development of political pluralism and state centralism is required.

IV. How can the institutional theory of prosperity contribute to the study of contemporary Ukraine?

Many of the patterns of political and economic behaviour still prevalent in Ukraine can be cast in terms of the “extractive” institutional behaviours described by Acemoglu and Robinson. Examples of this might include:

- The persistent blocking of economic and state institutional reforms thought to impinge on oligarchs’ business interests—that is, to protect “extractive” economic interests against the encroachment of more “inclusive” economic rules driven by some domestic political factions, civil society and international institutions.
- The use of political influence and connections to push economic practices favourable to political insiders. One example would be the under-priced sale of the Kryvorizhstal steel plant in 2004 (Havrylyshyn, 2017, p. 117), and of domestic energy infrastructure in 2012.
- The intra-elite struggle for control of state institutions, and especially state enterprises such as Naftogaz (Ukraine’s national oil and gas firm), not just as a means of setting political and economic rules, but also of controlling their income flows.
- Oligarchs’ anxieties over a lack of the state capacity to enforce property rights could be seen as an incentive for them to block judicial reform.

The “extractive” character of the economic schemes associated with the Ukrainian oligarchy (some of which will be outlined in the next chapter) may have peaked during the presidency of Viktor Yanukovych, but continued and evolved in the wake of the Euromaidan protests, and may have re-expanded following the reconstitution of high-level business-political alliances. As with Winters’ concept of wealth defence, the institutional theory of prosperity provides a general framework for interpreting patterns of political and economic behaviour based on the “logic” of the incentive structures faced. Ukraine’s oligarchs and political elite may be understood as being enmeshed in the intertwining norms of political and economic behaviour from which they not only benefit, but are also accustomed. That is, not only do material interests motivate their actions, and so the reproduction of the oligarchy and an informal political economy structure, but so does habit, or the repeated re-enactment of social-institutional identities, once formed.

In the context of Ukraine’s originally regionally based business-political networks and the related issue of the relative weakness of the state, the emphasis of prosperity theory on the key developmental role of an effective central state is relevant to a consideration of both the resilience of the oligarchy and the country’s poor economic record, the two-sides of the research puzzle of this dissertation. The financial and political strength of the oligarchs and the financial and political weakness of the central Ukrainian state may thus be manifestations of the same process. In particular, the phenomena of private armies and privately funded battalions challenge the state’s monopoly of legitimate force, and so perhaps also the consolidation of a central state capable of upholding impersonally a property rights regime, while the institutionalisation of state-centred extraction schemes routinely drains the state of financial resources and capacity. A factor that favours the development of an effective central state, according to Acemoglu and Robinson, is when a single group is able to muster sufficient power relative to others. In post-independence Ukraine, this has rarely been the case for any length of time, in part owing to persistent rivalry between originally regionally located business organisations and political elites. According to the historical sociologist Charles Tilly, however, the crucial stimulus to state development in Europe has been the preparation and execution of war (Tilly, 1992). Whether there is any evidence that Ukraine’s war with Russia, ongoing since 2014, has had any positive “spill-over” effects on the efficiency of state institutions other than the army, could be a promising line of research.

C. The two theories conjoined

V. The combined theories offer a distinctive perspective on the problems of political and economic development

The distinctiveness of the institutional theory of prosperity, and its usefulness as a framework for analysis, is that it ties the development of “prosperous” economic practices to political institutions, which it views as constitutive of economic institutions. Aligning oligarchic and prosperity theories, Ukraine's ruling oligarchy can be interpreted as an "extractive" political institution that encourages and supports "extractive" economic practices. This could provide a means of showing systematically how specific mechanisms of oligarchic political influence map onto expected negative economic outcomes.

This alignment of theoretical frameworks also suggests a possible novel solution to the problem of Ukraine's perennially poor economic performance. Envisaging economic reform on its own as an insufficient measure, this solution would be for Ukraine to set as a key developmental goal the construction of a civil oligarchy, alongside a more inclusive or plural political system and a more effective central state, as the means of fostering the kinds of economic behaviour associated with prosperity. As with oligarchic theory, the application of Acemoglu and Robinson's theoretical framework could offer to Ukraine some practical lessons from the historical experience of counties, such as the US and the UK, that have already gone through this kind of transition.

Relatedly, oligarchic theory suggests that a failure to "tame" oligarchs—that is, to restrain and transform their behaviour through the development of the rule of law—may have contributed to difficulties in democratic transitions in countries such as Ukraine, because its importance as a phenomenon for countries moving away from authoritarian political systems has been overlooked.

D. Institutional economics, old and new

In recent decades, institutionalism as an approach to economic analysis has made something of a comeback. Originally, it was associated with the economic sociology of Thorstein Veblen, best-known for his work on the consumption patterns of the US *nouveaux riche* of the 1890s and the distortion of the potential of industrial society by the profit motive (Stilwell, 2012, pp. 215-218). At the level of theory, Veblen argues that, because it eschews the influence of culture and institutions, the goal-seeking logic of "hedonistic calculus" (his term for marginal utility theory) is unable grasp vital issues of the modern world, such as technological change and economic growth, but that these influences fall below the attention of neo-classical economists precisely because they have become customary (Veblen, 1909). Following Veblen, an institutionalist tradition developed in North America in the first half of the twentieth century. However, this tradition lost ground with the mathematisation of economics as a subject after the second world war, driven on the macroeconomic side by the practical policy emphasis of Keynesianism on national income accounting, as well as by the emphasis of neo-classical microeconomics on marginalist techniques (Backhouse, 2002, pp. 237-240).

A “new” or reconfigured institutionalism has been in the ascent since perhaps the 1980s, in some ways rivalling, but in other ways overlapping with neo-classical assumptions, techniques and themes (Stilwell, 2012, pp. 226-227). For the earlier version of institutionalism, we may take Veblen’s definition of institutions as “settled habits of thought common to the generality of men”, including “usage, customs, canons of conduct, principles of right and propriety” (quoted in Sowell, 1967, p. 189). For the later version, we can use Douglas North’s somewhat tighter definition of institutions as the formal and informal rules governing individual behaviour, but aiding co-operation (Douarin and Mickiewicz, 2017, p. 13). Examples of institutions include markets, firms and states, but also money, language and traffic rules. With its emphasis on the centrality of the rules of political behaviour conditioning economic growth outcomes, the theory of prosperity of Acemoglu and Robinson, outlined above, can be identified as belonging to the school of “new” institutional economics.

While both “old” and “new” versions adopt a rather broad view of institutions, subsuming within them organisations and social norms, they are not exactly the same. For instance, “new” institutionalism incorporates into its analytical framework a key assumption of neo-classicism—namely, the figure of the rational, utility-maximising individual with fixed consumption preferences—that the older version explicitly rejects (Stilwell, 2012, p. 226). Instead of explaining the emergence of institutions from the interactions of rational individuals, therefore, “old” institutionalism envisages a more circular process, centred on the concept of habit, which Geoffrey Hodgson defines as “self-sustaining, non-reflective behaviour that arises in repetitive situations” (Hodgson, 1998, p. 179). In this process, the actions of individuals, informed by habit, cohere through imitation into routines and social customs, and then into larger, evolving institutional structures, which in turn feed into individuals’ habit formation, including of intellectual habits, such as the process of rational calculation. This means that for “old” institutionalism, i) individuals’ habits and institutions are “mutually constitutive” and ii) that the rational actor is an outcome of institutional development, rather than an assumption leading to institutional emergence, as for the “new” school. From this perspective, for example, although consumer tastes may be subject to inertia—that is, people tend to buy products that they have bought before—individual tastes are not assumed to be innate, but rather moulded by socioeconomic conditions, corporate advertising among them (Hodgson, 2019, pp. 129-30, 139).

In contrast, neo-classicism proper, while placing “consumer sovereignty” at the heart of its theory, does not usually consider the process of formation of consumer tastes as falling within the remit of economics. Rather, as the “science of rational choice”, it focuses on what happens once consumers’ tastes have been formed. This is similar to a point made later in my analysis of wealth (Chapter Four), that the focus of neo-classicism on factors affecting the allocation of capital assumes that the process of wealth distribution has already happened, somewhere off stage. This reflects the (very successful) hegemonising strategy of this school of economics of presenting its own approach to the study of the economy as “economics” *per se* (Hodgson, 1998, p. 189).

It can be seen from this account that institutional economics offers a specific take on the “agent-structure” problem, with which social theory has been wrestling since its inception, in an attempt to develop a credibly balanced general understanding of social reproduction and social change in the two-way relation between the conditioning of individuals by economic and cultural factors on the one hand and individual volition and creativity on the other. As such, institutionalism is strongly reminiscent of certain ideas still current in social theory—namely, the structuration theory of Pierre Bourdieu and some aspects of the post-structuralist ideas of Michel Foucault. In particular, Bourdieu finds in the notion of social practices the necessary unity between social structure and social action as two dimensions of a single process, since social practices are everyday activities that have become routine, while, in combination, sets of practices that have become routine are what is meant by “social structure”

(Inglis and Thorpe, 2019, p. 196). Moreover, Bourdieu's use of the concept of practical consciousness as governing the performance of everyday actions of which the individual may only be intermittently aware (Inglis and Thorpe, 2019, p. 202) comes close to the institutionalist concept of habit. Lastly, institutionalism's emphasis on the constitution of individuals' mental framework by institutional structures recalls, but perhaps does not go as far as, Foucault's take on the relationship of discourses of knowledge to identity formation in the creation and recreation of how social individuals understand and perceive themselves (Drake, 2010, pp. 38-51).

The key concepts of "old" institutionalism (emulation, habit, customs, routines, institutions, evolution, action-information loops) are thus quite different from those of neo-classicism (subjective preference, utility and profit maximisation, market equilibrium, marginal and diminishing factor returns) familiar from microeconomics. It follows from this, therefore, that its methods of analysis are different too. In brief, these methods stress concrete detail, context, as well as historical, geographical and cultural specificity. An advantage of the approach of "old" institutionalism, moreover, is that it aligns better with notions of informality as implicitly understood customary political behaviours outlined in my examination of the Rada (Chapter Five), pointing to a possible bridge between political and economic approaches to the study of informality at the theoretical level.

The relevance to my study of this brief excursus on the difference between old and new institutionalisms, and on certain conceptual similarities with other branches of social theory, is that the variety of perspectives offer more diverse points of reference, examples and insights on which to draw—in my case, to aid in the description and analysis of the origin, workings, reproduction and development of the Ukrainian oligarchy, which is the focus of the next chapter. It will be especially helpful in informing my account of the institutional evolution of Ukraine's modern political economy regime (Chapter Three) and in the case studies of energy-sector rent-extraction schemes from 2014 (Chapter Six).

Chapter Three. The origins, operations, resilience and evolution of the Ukrainian oligarchy as a post-communist political economy regime: a critical review of the literature

A. Outline and aims

A variety of factors, then, have been advanced to explain Ukraine's poor economic showing since independence, as set out in Chapter One. The line of enquiry that I will take, however, focuses on delays in market economic reform following independence in 1991 creating conditions for the formation of the oligarchy—the fusion of big business and state authority—as Ukraine's dominant political economy institution. As such, it has weighed heavily on the country's political and economic development ever since, as oligarchs, it is argued, routinely obstruct economic reforms in order to protect their business interests. In an influential paper from 1998, Joel Hellman describes this as a situation of "partial reform equilibrium" (p. 228). This perspective informs the narratives and analyses of Anders Aslund (2009) and Oleh Havrylyshyn (2017), discussed below, in particular.

In the literature review, I first explore the political and political economy literature for accounts of the genesis, socio-economic character, economic operations, modes of political influence and institutional reproduction of the Ukrainian oligarchy following political crises, both after independence and in the wake of the Euromaidan anti-government protests of 2013-14. Based on the accounts of several authors, the final part of the chapter produces an overarching, synthesised narrative of the post-communist development of the Ukrainian oligarchy as an institution constituted by the evolving relation of leading business-political networks to formal politics, albeit with most focus on changes between the Yanukovych and Poroshenko presidencies. This establishes a narrative frame that informs the analyses of subsequent chapters.

Key aims of the review chapter are to identify possible conceptual, theoretical or empirical issues, underdeveloped or absent in the existing literature, that might be promising opportunities for further research, and to develop a "position" on key issues of contention in the field (that is, to work out which arguments and evidence you think are most convincing, and why). Such issues in the literatures on the Ukrainian oligarchy include differences of view on whether Ukrainian oligarchs are mainly capitalists, as well as over the degree to which they are able to influence public policy. (My position on these is that Ukrainian oligarchs can be capitalists, but are better distinguished by their extractive schemes, permitted by political connections, and that oligarchs are a powerful part of a system they do not fully control.) Another goal of the chapter is to identify possible mechanisms that link the oligarchy's political and economic schemes, both to its survival as an informal mode of political and economic rule, and to national macroeconomic outcomes.

B. Ukrainian oligarchs and the oligarchic system

I. Definitions, wealth estimates and networks

i) What is an oligarch and what is the Ukrainian oligarchy?

In the literature on the political economy of modern Ukraine, a variety of definitions of oligarchs and oligarchy are offered. Havrylyshyn, for example, starts with a traditional one, taken from Aristotle, of oligarchy as "rule by the few" (2017, p. 203). In Aristotle's analysis of possible political constitutions, however, there are two kinds of "rule by the few"—oligarchy and aristocracy. The first he contrasts unfavourably with the second as the self-interested rule of the rich as against the even-handed rule of the best. Here, "best" implies natural governing talent and so the ability to balance harmoniously the competing interests of the different socio-economic groups of which society in composed (Kenny, 2010, p. 69-71).

The "self-interested rule of the rich" may be a reasonable starting point for examining the informal elite politics of contemporary Ukraine. However, it captures only one dimension, or one set of actors, of Ukraine's oligarchic political economy system. In practice, in the literature, definitions tend to focus on one of the two lines of movement between great wealth and political influence, which may be thought of as a basic feature of the Ukrainian oligarchy as a system. This means that although oligarchs' wealth can be seen as a way of influencing political outcomes, political office can be used as a means of accumulating wealth. The first direction of travel is usually described as "state capture", while the second is termed "business capture" (Markus and Charnysh, 2017, p. 1,641). At the same time, the purpose of oligarchs' involvement in politics, it is recognised, is not just to protect, but also to expand, their economic holdings (Pleines, 2016a, p. 112).

Aslund describes Ukraine's oligarchs as very wealthy, politically connected businessmen, who often lead large, vertically integrated industrial conglomerates (2009, p. 107), while Wojciech Konończuk extends this to "big entrepreneurs, who have been able to turn their business prowess into powerful political influence" (2016, p. 5). In contrast, Turchynov contends that "the [traditional] formula of 'capital forms power'… has been completely inverted into its opposite 'power forms capital'" (quoted in Havrylyshyn, 2017, pp. 206-07). Bringing the parts of the whole together, Havrylyshyn defines the "oligarchate", or the informal political system of rule as a whole, as one in which "the establishment players are oligarchs, politicians and high-level officials" (2017, p. 201). This last is probably the most accurate and succinct starting point for a definition of the three main kinds of political economy actors of which the contemporary Ukrainian oligarchy is composed at the national level.

However, in the literature the terms "oligarch" and "oligarchy", along with those of "rent-seeker", "capitalist" and "entrepreneur", can be used interchangeably—that is to say, a bit imprecisely. Havrylyshyn, for example, refers to oligarchs as both rent-seekers and capitalists, even though profit-seeking is usually the characteristic role ascribed to the capitalist entrepreneur in competitive markets[3]. Thus, he views the oligarchs as the most successful of the "new capitalists" who accumulated their original stock of wealth amid delayed reform in the early 1990s, a consequence of which was the "embryonic start of a rent-seeking capitalist class later called the oligarchy" (2017, p. 306). Aslund, in contrast, tends to describe oligarchs either as entrepreneurs, owner-managers, or as the heads of "industrial groups" (2009, pp. 107-113), but to use the term "capitalist" less frequently. Rather than "capitalism", he prefers the term "market economy", although he defines it rather awkwardly—that is to say, not in its own terms, but by way of contrast, as "the opposite of a socialist economy" (2009, p. 5).

[3] The two are related, however, as described in Section III below.

These definitional questions can have practical consequences on research outcomes. For example, Markus and Charnysh adopt a wide, relative definition of the “super-rich” as “being among the 200 richest persons in the country” (2017, p. 1,638). Heiko Pleines begins by describing oligarchs as “entrepreneurs who use their wealth to exert political influence” (2016a, p. 106). However, he goes on to add a number of qualifications—including involvement in national politics and the pursuit of business interests as the core political activity—in order to distinguish oligarchs analytically from either “pure” apolitical businessmen or professional politicians (2016, p. 114). As a result, the number of “unique plutocrats” included in the first study comes to 177 for 2006-12 (Markus and Charnysh, 2017, p. 1,637), but to only 29 “oligarchs” for the second, longer period of 2000-15 (Pleines, 2016a, p. 116).

ii) How rich are Ukrainian oligarchs?

For oligarchs, the possession of great wealth may be seen a defining feature, as their characteristic source of power. In the literature, the high level of wealth of the Ukrainian oligarchy, relative to society, tends to be illustrated by reference to the individual fortunes of its key members. This is sometimes justified by reference to the rivalry between wealthy business leaders, which can make it difficult for them to work together (Markus and Charnysh, 2017, pp. 1,635-1,636).

Havrylyshyn, for example, shows that by 2005-06 the incidence of Ukrainian billionaires was high in relation to the country’s GDP in international comparison. He does this in a somewhat roundabout way, calculating i) each country’s billionaires as a share of all billionaires on Forbes’ List for 2006; ii) each country’s economic output as a share of the global economy in 2005; then iii) dividing the first figure by the second. For Kazakhstan, Russia and Ukraine, this produces ratios of between two and three, which are higher than those for much richer economies. This allows the author to show that, despite the much higher share of world billionaires accounted for by Germany (almost 7%) and especially the US (almost 47%), the three former Soviet countries have high concentrations of very rich individuals relative to their economic size (2017, pp. 42-43). Even so, the number of Ukrainian billionaires in 2006 cited in

Havrylyshyn's calculations, of three, is much lower than other estimates from around the same period. For example, from an article in *Korrespondent*, a Ukrainian weekly, Aslund cites a figure of 23 Ukrainian billionaires in spring 2008 (Aslund, 2009, p. 110). In contrast, Forbes' List, a US business publication, counts just seven in the same year (Forbes' Lists, 2008). Such wide variation in numbers, as well as some lack of clarity on any differences in methodologies, can produce an incomplete, anecdotal quality to such exercises.

Using an alternative method to judge the scale of the wealth of the Ukrainian rich, Andrew Wilson estimates the assets of the 50 richest Ukrainians as equal to almost 46% of the country's GDP in 2010 (that is, their stock of wealth was equal to almost half of the country's annual income flow), compared with around 20% for Russia and 10% for the US (2013, pp. 187-189). Markus and Charnysh estimate the total as higher still. Using a large, detailed data set that includes information on the backgrounds and businesses of Ukraine's super-rich across time, they calculate that their sample of 177 individuals in 2006-12 controlled an average total of US$85.9bn, equal to 60% of GDP over the same period (2017, p. 1,638). Viewing the issue through the lens of international financial movements, Taras Kuzio cites a study by Global Financial Integrity (GFI), a US think-tank, which estimates illicit capital outflows from developing countries in 2004-13 (Kuzio, 2016, p. 133). The estimates for Ukraine are reproduced in the top row of Table 3.1; in the rows below, I have scaled these flows to Ukraine's annual GDP. According to this data, then, such financial outflows from Ukraine averaged US$11.7bn per year over the decade, equivalent to an average of 8.5% of annual nominal GDP.

Table 3.1: GFI estimates for illicit capital outflows from Ukraine, 2004-13

(US$ bn, unless otherwise indicated)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Offshore outflows, US$ bn (GFI)	4.4	5.6	5.4	7.2	16.9	10.6	13.8	17.9	21.0	13.9
GDP, US$ bn (IMF)	67.2	89.3	111.9	148.7	188.2	121.6	136.0	163.2	175.7	179.6
Outflows as a share of GDP (%)	6.5	6.3	4.8	4.8	9.0	8.7	10.2	11.0	12.0	7.7

Sources: Kar & Spanjers (2015), Global Financial Integrity (GFI) report, cited in Kuzio (2016); IMF, World Economic Outlook (WEO) Databases, October 2017; available at: https://bit.ly/3i3ME46. [Accessed March 14th 2022.]

Note: Own calculations for ratio of outflows to GDP.

In light of the account so far, the study of oligarchic politics in the former Soviet countries could be advanced in a number of ways. One would be to apply more consistently the analytical distinction between oligarchs as wielders of concentrated material power from the oligarchy as an informal political economy institution of the very rich in alliance with political elites—so bringing greater conceptual clarity and a fresh approach to the study of elite politics in Ukraine. A second would be to investigate the different methodologies of frequently used local and international estimates of oligarchs' wealth (eg Forbes, Korrespondent and Focus) to check their compatibility, and then perhaps to integrate them with more conventional macroeconomic statistics (national income or assets, for example). Building on the example of existing data sets on individual oligarchs, and using a mix of descriptive and inferential statistics, the production of a systematic and up-to-date description of the changing pattern of oligarchs' wealth, relative to Ukrainian society and in international comparison, would produce a more comprehensive, dynamic picture of oligarchs' material power (wealth relative to society) than is hitherto available. It could also help to establish whether concentrated material resource power remained as strong a basis for oligarchs' political influence after the Euromaidan. A third research idea arising from the discussion so far would be to produce a "before and after" analysis, showing the reconfiguration and realignment of key business leaders and their networks with successful political leaders between the Yanukovych to the Poroshenko presidencies. This would extend the currently quite underdeveloped descriptions of the interlinks between the very rich and the state elite before and after the Euromaidan as an aid to understanding how the components of an informal political economy institution come apart and reform during and in the aftermath of political crises, and perhaps of whether there is evidence that levels of wealth and political connection influence this process in terms of positional stability over time.

II. Origins of the oligarchs and formation of the oligarchic system

i) Two key structural economic conditions

On the formation of the modern Ukrainian oligarchy, the narratives of several commentators (Aslund, 2009; Havrylyshyn, 2017; and Yurchenko, 2018) are quite similar. All draw attention to the necessary preparatory role played by the economic reforms brought under Mikhail Gorbachev's policy of *perestroika* (reconstruction), and especially a law on co-operatives, which introduced rudimentary private property rights into the late Soviet economy. Here, Yuliya

Yurchenko's account is the most detailed and instructive (2018, pp. 25-41). She shows that *perestroika* was a response to the numerous, accumulated failures in the Soviet economy, which appeared as a progressive slowdown in output growth. The reforms of Gorbachev and his team were designed, therefore, to boost economic efficiency and the pace of output growth by introducing limited elements of market pricing and competition, offering a greater role for private material incentives, but with the potential also for business failure. To do this, alongside a degree of price deregulation, plans were developed to permit new kinds of ownership (shareholding and leasing, as well as a renewed emphasis on co-operatives), and to encourage an increased role for financial intermediation. Most importantly, they aimed to devolve to enterprises more responsibility for decisions on financing, purchasing, sales, wages and accounting, with an emphasis on balancing the books. These plans were encapsulated in legal changes that began in 1987 and culminated in the Law on Soviet Co-operatives of May 1988, which gave anyone over the age of 16 the right to set up a co-operative venture. Although the co-operatives quickly increased their share of Soviet output and employment, the reforms had multiple unintended consequences, Yurchenko argues. One was that the changes "threw out of balance the whole system of economic management" (Yurchenko, 2018, p. 28), exacerbating pre-existing co-ordination problems and fractious rivalries within the late Soviet state apparatus.

The political rise of the Ukrainian oligarchy is customarily dated to the second half of the 1990s, during the first presidency of Leonid Kuchma. However, both Havrylyshyn and Aslund point to the earlier delay in economic reforms during the presidency of his predecessor, Leonid Kravchuk, in the years immediately after independence, as a second crucial factor behind oligarchic formation. As an explanation for this delay, Havrylyshyn argues that the former Soviet nomenklatura (the politically vetted holders of high office in the Soviet system) sought to delay market economic reforms in order to give themselves time to transform themselves into the new property-owning class, so as to retain their dominant political position (2017, pp. 77-78). However, this probably projects backwards onto members of the old Soviet bureaucracy more foresight, as well as greater powers to realise their plans, than they are likely to have possessed, not least because of the novel and unfamiliar situation in which they found themselves post-independence. More persuasive, I think, is the argument that, in contrast to nearby countries such as Poland and Estonia, a “new”, multi-ethnic state like Ukraine simply did not at the time possess the necessary social and political cohesion to undertake rapid market reforms (although this is also a contested view). In part, this may have been owing to the relatively passive way in which Ukrainian independence was achieved—that is, “partly through its own efforts, but primarily because the Soviet order imploded” (Wilson, 2013, p. 182).

ii) Common socio-political backgrounds

Alongside the above two structural economic conditions—the partial introduction of market-style reforms, but the delay of full-scale ones heralding a switch in economic systems—the active ingredient in the process of formation of the oligarchy is to be found in the socio-political inheritance from the late Soviet period. On this, too, there is surprisingly broad agreement, even among authors with widely divergent ideological outlooks. Havrylyshyn, for example, runs through the biographies of prominent, named oligarchs, from the early phase of their emergence to the present day, sifting out common sociological characteristics in their backgrounds (2017, pp. 202-207). He shows that the first Ukrainian oligarchs had their origins in the former Soviet nomenklatura, either from within the party-state apparatus, or as managers of large industrial concerns, the so-called red directors. Also, many new oligarchs were relatively young in the 1990s, having founded their first businesses early, in the late 1980s or early 1990s, making commercial progress, it is implied, either by capitalising on political connections linked to their privileged positions (as members of the Komsomol, the key Soviet political youth organisation, or as students at prestigious institutions of higher education), or as political outsiders able to develop relationships with key public officials to their mutual material benefit. Yurchenko argues that the roots of this connection between high public officials and the underworld, for which she borrows the term “political-criminal nexus” and which was crucial to the formation of the oligarchy in the decade after independence, can be traced back to the 1960s and to the structural deficiencies of the Soviet economy—namely, an overemphasis on military production at the expense of consumer goods (2018, pp. 29-34).

Between them, the combination of limited private property rights and the delayed introduction of liberalisation and market competition created opportunities for arbitrage (making money on price differences between markets). From such opportunities, privileged political insiders, or those with good connections to public officials, were able to build their initial capital. The wealth so gained was used in part to develop sufficient political influence to allow the oligarchs to perpetuate the "partial reform equilibrium" from which they continued to benefit financially. This mode of analysis, as indicated above, draws on Hellman's influential paper (1998), in which he contends that, in the transition from east European communism, the early winners of reform often proved to be the main political actors blocking the development of fully functioning market economies, rather than the short-term losers of the reform process, as was the conventional wisdom at the start of the transition process. In contrast, Yurchenko sees the development of market economic relations in Ukraine as neither stable nor positive, but primarily as socially destructive (2018, pp. 42-67).

A recent quantitative study by Markus and Charnysh (2017) chimes with the above account in confirming red directorships and (insider?) privatisations as two important original sources of the wealth of the very rich in Ukraine. At the same time, the study demonstrates two further "wealth origin stories" among the Ukrainian super-rich, one linked to the holding of executive positions in big corporations and another generated "from scratch"—that is, by entrepreneurial activity. This may tie in with the view, considered below, on the development of "normal" capitalist modes of wealth accumulation in Ukraine after the 1990s. Nonetheless, in discerning more "respectable" corporate and entrepreneurial paths to riches among those in the second two groups, the authors perhaps abstract too much from the quite tough Ukraine-specific business environment in which they had to operate.

iii) Two "classic" arbitrage schemes

On the accounts of Aslund and Havrylyshyn, despite a proliferation of a great variety of corrupt economic schemes, two kinds of "classic" arbitrage scheme stand out as characteristic, the first of the early 1990s and the second of the mid-1990s on.

In the first, while price liberalisation had already occurred by 1992-93 in neighbouring countries such as Poland and Russia, in Ukraine the prices of many tradable commodities were still state-controlled or subsidised. This meant that those with insider connections—for example, to officials in charge of issuing export licences—were able to buy goods cheaply at home and sell them abroad at higher prices, yielding significant local-currency profits. Aslund estimates "export rents" generated in this way at US$4.1bn in 1992, or the equivalent of about 20% of GDP for the year (2009, p. 55).

In the second scheme, natural gas was imported from Russia at low or subsidised Russian prices by private Ukrainian intermediaries, but under Ukrainian state-guarantee. In Ukraine, the gas was sold at higher domestic prices, but with the Ukrainian state footing the bill for unpaid private gas debts upon default, sometimes via debt-asset swaps—for example, by ceding to Gazprom, the Russian state gas supplier, ownership in energy infrastructure (Havrylyshyn, 2017, p. 209; pp. 227-228). Aslund describes this gas trade the "greatest source of rent-seeking" in the second half of the 1990s (Aslund, 2009, p. 105). For Havrylyshyn, the long-term political impact of these gas-trading schemes with Russia has been more harmful still than the earlier, more indigenous arbitrage schemes because of their "double" effect: first, by boosting the wealth of corrupt local business elements, so strengthening their political influence and accelerating the formation of the oligarchy; and, second, by handing Russia an additional means of coercing Ukraine politically in line with its own strategic interests (Havrylyshyn, 2017, p. 229).

III. What is the Ukrainian oligarchy and how does it function?

i) Oligarchs as operators of state-centred, rent-seeking economic schemes

Perhaps again following Hellman (1998, p. 219), the term "rent-seeking" is liberally used in the literature to describe the economic practices characteristic of the Ukrainian oligarchy. "The theory of rent-seeking provides the simplest explanation of oligarchic formation," writes Havrylyshyn (2017, p. 207). Referring to the 1990s, Aslund notes that "since the most successful businessmen made their money rent-seeking, they ignored production" (Aslund, 2009, p. 4). Neither offers a definition of the phenomenon, however, perhaps considering the concept to be too well-known and central to mainstream economics for this to be necessary.

Nonetheless, from the range of lucrative schemes that they outline, by which prominent business groups and leaders have been able to augment their wealth, it is possible to discern a common link between them. As a provisional step, this might be termed the acquisition of something for nothing. Alongside the two key arbitrage schemes referred to above, economic mechanisms of this kind that have operated in post-independence Ukraine include:

- subsidised credits, with cheap loans offered to politically connected businesses;
- transfer pricing, in which, for example, the manager of a state enterprise sells its products at low cost to a private firm owned by the manager or a family member, but with any losses incurred at the state enterprise covered from the public purse (Havrylyshyn, 2017, p. 210);
- insider privatisations, in which, for instance, eligibility criteria for possible new owners have been tailored in advance to fit a specific, favoured business;
- the padding of state procurement contracts, alongside the avoidance or abolition of oversight controls; and
- hostile business takeovers, either by means of institutional intimidation (such as threatening to conduct official inspections), or the threat or use of physical force (such as the so-called *reiderstvo*).

A feature of these enrichment schemes is that some endure and evolve, whereas others arise and are prominent for a time but then fade, to be replaced by new ones. For example, large-scale schemes in the energy sector have been a staple of post-independence elite enrichment from at least the mid-1990s, proving resilient and adaptable in the face of periodic anti-corruption drives. This was the case following the energy-sector reforms of Viktor Yushchenko in 2000-01 and in 2005-06 (Aslund, 2009, pp. 138-139; Havrylyshyn, 2017, pp. 230-232). This may again have been the case in the post-Euromaidan period, following high-profile reforms of Naftogaz, the state energy concern, and a series of sharp rises in household utility tariffs (Zinets and Polityuk, 2017). An example of a “fleeting” scheme might be the issue by the National Bank of Ukraine (NBU, the central bank) of cheap enterprise credits to favoured sectors and actors in the early 1990s. This scheme was fleeting in the sense that it was quickly made untenable by the economic phenomenon—of fast-rising prices—that it helped to fuel, albeit not without doing significant economic and social damage first. By means of this scheme, Aslund writes, “A small group of privileged insiders usurped a huge share of GDP”. He estimates the total value as equal to 65% of GDP in 1992 and 47% in 1993 (2009, pp. 55-56).

More formally, the concept of rent-seeking is understood in relation to the theory of income distribution associated with neo-classical microeconomics (Stilwell, 2012, pp. 191-199). According to this theory, patterns of income distribution in a market economy are explained by the relative prices of factor services—that is, for the use of land, labour and capital—which are determined by market forces (that is, by supply and demand). From this perspective, therefore, a capitalist is someone who derives income from the market-determined value of the wealth-contributing capital services that they provide. (This, then, is both a theory of income distribution and an implicit justification for it.) One the one hand, according to the highly influential account of Friedrich Hayek, an Austrian economist, of the dynamic nature of competition (Hayek, 1948), temporary economic rents are a key part of the process of both innovation and adjustment by which market economies direct investment and rebalance themselves following economic shocks, since in competitive conditions, high prices provide the correct signals for a reallocation of resources. It is only when this mechanism is prevented from working that rent-seeking opportunities become more persistent and so problematic (Sethi et al, 2017), allowing some actors to gain access to wealth-enhancing income, but without participating in wealth-creating economic activities.

Further research on continuity and change in the economic schemes associated with the Ukrainian oligarchy in the post-Euromaidan era would deepen understanding of the ways in which oligarchs and other members of the oligarchy operate to protect and enhance their material positions, following an episode of political disruption. This would illustrate the important role played by informal economic practices in the reconstitution of the oligarchy as a whole, so helping to explain it institutional resilience. It might also provide evidence of the defence and reestablishment of economic practices widely regarded in the macroeconomic literature as unfavourable to the development of general economic prosperity.

Table 3.2: "Extractive" economic practices characteristic of the Ukrainian oligarchy		
Scheme	**Details**	**Approximate period**
Commodity arbitrage	Commodity prices remain state-controlled or subsidised as price liberalisation proceeds in neighbouring countries. Insider connections give access to arbitrage opportunities.	Early 1990s
Gas trade arbitrage	Natural gas is imported at low Russian prices by private Ukrainian intermediaries, sold at higher domestic prices in Ukraine, but with the Ukrainian state covering unpaid private gas debts to Russia.	From mid-1990s until the war with Russia from 2014
Subsidised credits	Cheap loans offered to politically connected businesses.	Early 1990s
Transfer pricing	Example: the manager of a state enterprise sells its products at low cost to a private firm owned by the manager, but with any losses incurred at the state enterprise covered from the public purse.	Early 2000s?
Insider privatisations	Example: eligibility criteria for possible owners are tailored in advance to fit a specific, favoured business.	Late 1990s; Yanukovych era
State procurement contracts	Padding state procurement contracts, alongside the avoidance or abolition of oversight controls.	Yanukovych era
Hostile business takeovers	Either by institutional intimidation (eg threats of official tax, sanitary or safety inspections), or the threat/use of physical force.	Azarovshchinas; Kolomoyskyi
Military supply contracts	Interior minister's son sells backpacks to the Ukrainian army at inflated prices.	Post-Euromaidan
Source: Adapted from Havrylyshyn (2017, p. 208).		

ii) Did some Ukrainian oligarchs turn themselves into productive capitalists? How powerful are the oligarchs politically?

Characterisations of the Ukrainian oligarchs in the academic literature differ on at least two key issues. The first is over their status as capitalists—in particular, whether some were able to transform themselves from rent-seekers in the 1990s into productive business owners by the early 2000s. The second is over the relative strength of the very rich in the informal system of political economy rule as a whole, which I am calling “the oligarchy” after its strongest part, and in relation to the policy-making in particular.

Oligarchs as incipient capitalists

On the first issue, the two accounts that diverge most sharply from the mainstream view of the oligarchy as made up of anti-competitive rent-seekers are those of Aslund, and of Swain and Mykhnenko. Both make the case that industrial restructuring undertaken by home-grown capitalists played a significant role in Ukraine's economic recovery after 1999.

Aslund argues that the economic reforms undertaken by Viktor Yushchenko as prime minister in 1999-2001 "created a market economy and went far enough to become irreversible" (2009, p. 6). Alongside the development of a "competitive oligarchy", he says, this drove rapid economic growth and the political pluralism that led to the "democratic breakthrough" of the Orange Revolution in 2004-05 (2009, p. 6; pp. 107-113). Most striking is his argument that some talented local entrepreneurs were able to restructure successfully Ukraine's large, failing heavy industrial concerns owing to superior knowledge of local political and work-place practices, in this way contributing significantly to the 2000-07 boom, when the country's real GDP per head grew at the very rapid annual rate of 7% (IMF, 2019b). He refers to studies that he says provide evidence for this productivity-boosting work, but does not set out in detail what their evidence is (2009, p. 112). Summing up the presumed underlying shift in the way in which big business operates, he writes that "the country had traversed the crucial hurdle from arbitrage to export production" (2009, p. 6). Writing five years later, however, the author seems to have stepped back from this upbeat assessment, recognising that the rent-seeking system continued to predominate under the "predatory" rule of Viktor Yanukovych, in large part, he thinks, because the "old Soviet state system continues in a rudimentary market economy" (2014, p. 240.)

Swain and Mykhnenko tell a similar story, even if, like Yurchenko, their main purpose is to criticise orthodox transition economics, of which Aslund is an exponent. But their criticism is from a "varieties of capitalism" perspective rather than an anti-capitalist one like Yurchenko, so that their target is not capitalism *per se*, but rather the wholesale transplantation of Western-style capitalism into Ukraine—that is to say, capitalism in its "transition" guise. They perceive in Ukraine, and wish to defend, the rise of "self-organising" "indigenous capitalism, involving local accumulation" (Swain and Mykhnenko, 2007, p. 41), at least in the Donbas, the region in eastern Ukraine on which they focus. "It is our contention," they write, "that the economic growth between 1999 and 2004 was in part linked to the revival of the economy in the Ukrainian Donbas". Chiming with Aslund's account, the main factor explaining this is industrial restructuring (Swain and Mykhnenko, 2007, p. 7).

For these authors, narratives critical of the rise of big business in the Donbas overlook indigenous industrial restructuring because they are "in part the product of a colonial Western-centric view that renders invisible actually occurring transformations" (Swain and Mykhnenko, 2007, p. 40). For them, the function of mainstream analyses is to cast positive local economic developments—or, at least, developments no worse than those seen in the early stages of capitalism in the West—in a negative light, so delegitimising local entrepreneurs and aiding their predatory foreign rivals. In this way, they argue, a strong regional tradition of paternal social solidarity is mistermed "authoritarianism"; successful local capitalist entrepreneurs are derided as "oligarchs"; enterprising self-organisation is portrayed as asset-stripping; and the positive economic stimulation achieved by regional corporatism is slandered as being the result of corrupt collusion of private and public officials (Swain and Mykhnenko, 2007, p. 41).

On the one hand, they try to open up a way of thinking about the process of economic and political development in "peripheral" countries like Ukraine that moves away from the "one size fits all" model frequently promoted by international (that is, Western-dominated) financial institutions since the 1980s. On the other hand, they seem routinely to conflate the interests of the business-political groups that came to dominate the Donbas economically and politically after 1991 with those of Donbas population as a whole.

A common problem with the arguments of both Aslund, and of Swain and Mykhnenko, is that, by focusing too much on the issue of supposed industrial restructuring, they seem to ignore or downplay other, more obvious factors behind Ukraine's 2000-07 economic boom. Chief among these are the low base of comparison created by the output slump of the 1990s; the global economic boom of 2000-07, which boosted world commodity prices (Turley and Luke, 2011, p. 226), including for Ukrainian steel, so improving the country's terms of trade (the ratio of export prices to import costs); the rise in foreign borrowing, which, as elsewhere in eastern Europe at the time, helped to fuel a domestic credit boom; and a boost to domestic demand from a phase of fiscal loosening undertaken by the first Yanukovych government in 2002-04. More damaging still, perhaps, for the thesis of “indigenous capitalism, involving local accumulation” is the charge that by minimising oligarchs’ production costs, the extensive use of transfer pricing in this period was responsible for boosting the profits of oligarchs’ large industrial concerns, creating the appearance that successful industrial turnarounds had taken place, but with the state budget footing the bill—in effect, extending large public subsidies to oligarchs’ private businesses.

How powerful are the oligarchs in practice?

A second important issue on which views of the Ukrainian oligarchs diverge is over the degree of political and policy-making power that they exert, whether this is all encompassing and policy-directing, or more reactive and ad hoc.

At one end of the scale, Havrylyshyn conceives of oligarchic power as extensive. He writes that “oligarchs [have enough power to] not only influence specific policies to favour themselves…they may in fact be powerful enough in collusion with each other to ‘capture the state’ in the sense of virtually controlling the direction of general policy or even election outcomes” (2017, p. 203). It is this high degree of direct control over policy direction that he sees as distinguishing the position of Ukraine’s oligarchs from the system of special interest lobbying that routinely takes place in the liberal-democratic West.

Pleines (2016a), in contrast, sees the typical *modus operandi* of the oligarchs as more reactive, with them hedging their bets and adapting to the realities of unpredictable political and electoral outcomes. Based on data about the personal and business details of individual oligarchs, he argues that, despite undergoing compositional changes, the position of a “core” of oligarchs has remained quite stable, and their political influence consistently strong, by means of a consistent strategy of informal manipulation. In common with Markus and Charnysh, he links the strategies of successful oligarchs to a willingness to adopt a flexible approach to politics. Of Pleines’ sample of 29 oligarchs, half are found to have held formal political posts during all four presidencies in 2000-15, so supporting the notion of “state capture” associated with Hellman (1998).

However, he also concludes that oligarchs' use of their parliamentary and media influence has helped to create an uneven political playing field that favours political incumbents, in line with the concept of "competitive authoritarianism" of Steven Levitsky and Lucan Way. "At the same time," Pleines writes, "the oligarchs are not the major power brokers in Ukrainian politics", but rather have always tried to "seek accommodation with those having or gaining political power" (2016, p. 126). This is a crucial insight in understanding that oligarchs, with their financial power and business networks, are only one part of the informal, oligarchic system of political rule as a whole, in which successful politicians and the holders of important state offices are the other key elements. This explains why, in the face of uncertain political outcomes, Pleines concludes, oligarchs tend to adopt a "wait and see" attitude, supporting rival candidates and parties in elections, but often falling in behind the likely winner in any critical contest as soon as this becomes clear, so accentuating, but not initiating, the direction of political change. This tallies with Henry Hale's thesis on the operation of "patronal politics" in many of the countries of the former Soviet Union (Hale, 2015), which I analyse below. In this way, Pleines seeks to show three theoretical approaches to the political sociology of post-Soviet polities as distinct, but not necessarily contradictory, perspectives, each highlighting a different aspect of the workings of the whole.

IV. Continuity of the oligarchic system post-Euromaidan

i) Introduction

Following the dramatic flight of Viktor Yanukovych and his coterie from Kyiv, the Ukrainian capital, at the end of February 2014, the position of the oligarchs looked weakened and uncertain. This seemed especially the case for those, such as Rinat Akhmetov and Dmytro Firtash, who had been among the leading backers and main beneficiaries of the Yanukovych presidency. The impression was accentuated by the rhetoric of "de-oligarchisation" coming from politicians in the interim government (in place from late February 2014), driven by popular expectations that the old ways of doing politics would not be allowed to continue (Umland, 2017).

However, some studies have since suggested that, despite the erosion of the wealth and power of key oligarchs, and an alteration in their relative positions, the oligarchic system itself remained intact. Konończuk, for example, writes that "The oligarchic system, which intrinsically involves corruption and informal ties between the oligarchs and the top tier of government, did not disappear after the Euromaidan, it merely evolved slightly to adapt to the new political situation" (Konończuk, 2016, p. 35). Similarly, Wilson notes that, "For many, 'reform' in Ukraine has been synonymous with dismantling the ruling oligarchy", but that in the post-Euromaidan era there had been "no general witch-hunt" against them as a group, and that in the Ukrainian parliament, "oligarchs dominate the old parties as well as the new ones" (Wilson, 2014, pp. 144-160).

ii) Survival of the "old" oligarchs

On the reasons for its survival through another period of momentous political turmoil, Konończuk argues that "the main cause…has been the decision, taken by some of the post-Euromaidan elite, to enter into informal alliances with the oligarchs" (Konończuk, 2016, p. 5). He sees two key moments in the re-establishment of this tactical, symbiotic, but ultimately unstable alliance between the main pre-Euromaidan oligarchs[4] and new political leaders[5]. On Konończuk's analysis, instability is built into the relationship by the oligarchs' overriding rationale, which is to protect their business interests (this point echoes both Hale's analysis, which I outline below, and the logic of Winters' theory).

The first such moment was the election for the Verkhovna Rada (parliament) of October 2014. Konończuk argues that, with great wealth at their disposal and dominating the TV market, the oligarchs were able to offer financial and media backing to politicians, thereby paving the way for the reaffirmation of their central role in the political process. Konończuk and Wilson (2016) concur that elections in Ukraine are unusually expensive in relation the country's economic size. Wilson shows also that the cost of recent Ukrainian elections extends beyond media advertising because of the extensive use of unscrupulous machine politics—in fielding "clone" parties to confuse voters and draw votes away from rivals (2016, p. 5).

[4] Including Rinat Akhmetov, Dmytro Firtash and Ihor Kolomoyskyi.

[5] Primarily, Petro Poroshenko, elected president in May 2014, and Arseniy Yatsenyuk, who was prime minister from late February 2014 until mid-April 2016.

For Konończuk, the second moment in the practical political rehabilitation of the oligarchy was the departure of two parties (Self-Reliance and Fatherland) from the governing coalition in 2016, which left it with a very slim parliamentary majority, of 227 seats in the single chamber, 450-seat legislature, so hampering the government's prospects for passing legislation. In response, he argues, the government parties—the Petro Poroshenko Bloc (PPB), with 145 seats, and Yatsenyuk's People's Front (PF), with 81 seats—entered into informal legislative alliance with oligarch influenced parliamentary groups, accepting political support on key laws in return for deflecting or postponing reforms that would impinge on oligarchs' business interests. (My own empirical findings in Chapter Five of this dissertation are very much in line with this analysis.)

On Konończuk's account, the evidence for this, and for the renewal of the business-political alliance post-Euromaidan more broadly, is shown by an analysis of parliamentary activities. This includes an absence of prosecutions of figures from the Yanukovych government; the failure to reverse any of the insider privatisations from the Yanukovych era; efforts to delay in parliament the removal of electricity export subsidies, apparently to aid the business interests of Akhmetov; the blocking of a law on joint stock companies that would have impinged on the interests of Kolomoyskyi; and the postponement of legislation on the public financing of political parties, designed to break their reliance on oligarch funding.

<u>iii) Emergence of the "new" oligarchs</u>

Alongside the above developments, Konończuk outlines the emergence of influential groups of figures around key post-Euromaidan political leaders, whose *modus operandi* is to use their close personal connection to political leaders to gain control of profitable state-owned enterprises, and their revenues, as a means of building their own business bases. This group he calls "new oligarchs". It includes Ihor Kononenko, a long-term friend and business partner of Poroshenko. In Yatsenyuk's circle, profiles are sketched of Andriy Ivanchuck, the chair of the economics committee of the Verkhovna Rada (parliament), and Mykola Martynenko, who chaired the energy committee in parliament until the end of 2015, and was arrested briefly in 2017 on charges of embezzlement[6]. Konończuk's chart, reproduced below, summarises his view on the main links of new and old oligarchs in the "orbits" around the president and (then) prime minister (2016, p. 34).

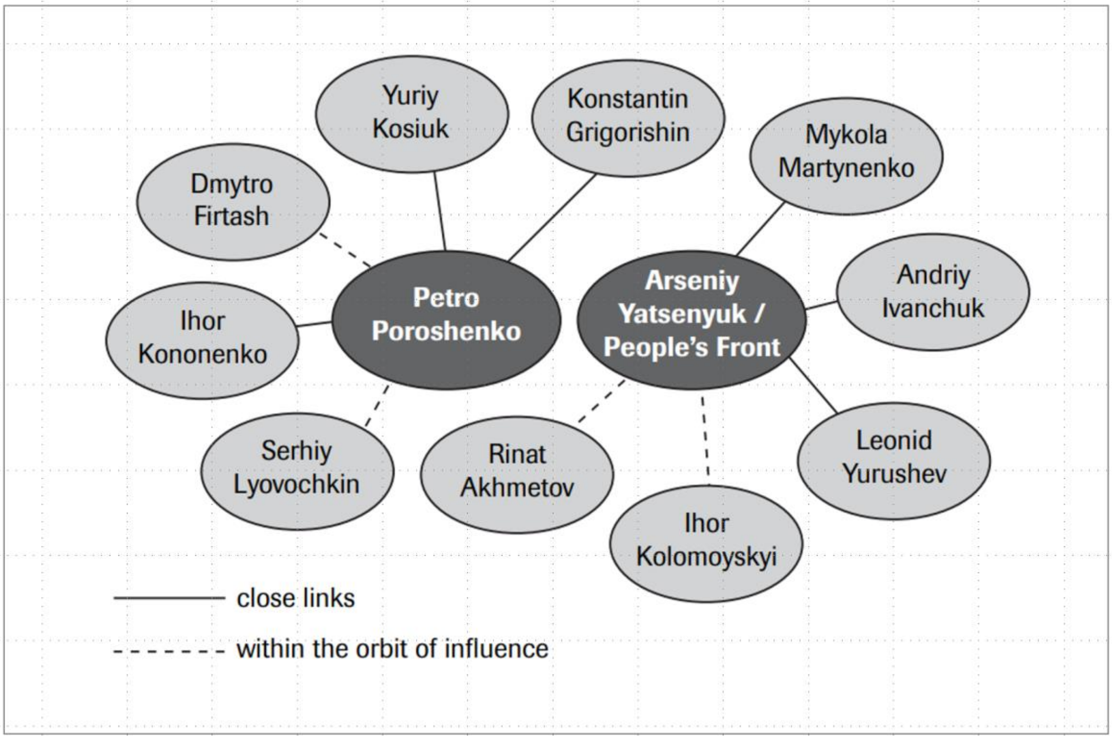


Figure 3.1: Konończuk's "Links of the main oligarchic groups in Ukraine".
Source: Konończuk, 2016, p. 34. Title adapted in order make attribution clear. Available: https://bit.ly/3k2DaYL. [Accessed February 16th 2019.] © Copyright by Ośrodek Studiów Wschodnich im. Marka Karpia / Centre for Eastern Studies.

Looking at a similar phenomenon in somewhat wider focus, Wilson makes use of the term "watchers" (*smotriashchi*) for the "network of placemen bureaucrats and state enterprise bosses, appointed by politicians in exchange for then funnelling public money into their election campaigns" (2016, p. 6). This is a good example of the "politics to riches" direction of movement on the oligarchic system's two-way street, or "business capture". It also suggests that, for the elite, political power is conceived to depend not just on office but also on the control of economic assets.

That the influence of such new groups has grown, Konończuk suggests, is shown in their open clash with reformist elements of the administration, which

[6] For profiles of these figures, see Konończuk (2016, pp. 22-33); also Zinets and Polityuk (2017).

culminated in the resignation of the economy minister, Aivaras Abromavičius, and his team in February 2016. Nevertheless, he also suggests the “new” oligarchs remain weaker than the “old” oligarchs, because of the relative insecurity implied by control as against ownership of assets, as well as the continuing dominance of the old oligarchs of the TV market.

iv) What is behind the institutional resilience of the Ukrainian oligarchy?

Drawing on local perceptions of political practice, Henry Hale offers a general framework for understanding the reconstitution of informal systems of rule, following episodes of disruption, in terms of the incentive structures faced by key actors, and the expectations that they develop, in societies dominated by “patronal” politics. This broad political-sociological characterisation, he argues, applies to Ukraine and many other former Soviet republics of “Eurasia” (Hale, 2015, p. 2). In a patronal political system, power, envisaged as the distribution of rewards and punishments, is organised through hierarchical networks of personal acquaintance (Hale, 2015, p. 9). Patron-client networks tend to form in three main milieus—regional politics, with bosses at the top; big business, headed by oligarchs; and national politics, with political leaders and state officials in charge (Hale, 2015, p. 29).

An important implication is that “patronal” regimes are more stable than they appear. That is, Hale argues, the periodic political disjunctures in post-Soviet politics might best be understood not as revolutions, nor as instances of democratic breakthrough or backsliding, but rather as cycles of adaptation and reconstruction of informal network “pyramids”, as they interact with key elements of formal politics. In particular, these elements condition actors’ expectations about the prospects for leadership change, and so too about the future ability of existing patrons to continue to perform effectively their reward and punishment functions. This means that, in the wake of significant political change, network leaders have a strong incentive to fall in behind the political winners, and especially the chief political “patron”, to protect their position and access to resources. This is similar to Konończuk’s point above about the instability in political alliances implied by oligarchs’ wealth-protecting motivation. However, Hale also stresses the overall informal institutional continuity that it helps to preserve. He recommends the "reorientation of scholarship from the logic of regime change to a logic of regime dynamics" in order to "capture how the moving parts of highly patronalistic polities (such as oligarchic networks or regional political machines) arrange and rearrange themselves in regular…ways that might on the surface look like regime 'change'" (Hale, 2015, p. 15). Andreas Umland (2017) is one of the scholars who has attempted to apply this theoretical framework explicitly to political developments in post-Euromaidan Ukraine, arguing that although reformist politics during the Poroshenko presidency has co-existed alongside the recreation of patronal hierarchical power pyramids, that latter sets limits on the actions of the former.

From a different methodological and theoretical perspective, Markus and Charnysh (2017) use econometric models to test quantitatively the relative effectiveness of different wealth-protection strategies of the Ukrainian oligarchs in 2006-12. Chiming with the findings of Pleines (2016a), they find evidence that indirect strategies, including the financing of political parties and media ownership, have been more successful in defending oligarchs' wealth than direct ones (mainly holding government jobs or parliamentary seats). They explain this by means of the greater effectiveness of a political "logic of flexibility"—as against a "logic of commitment"—in conditions where the rule of law is weak but politics remains competitive. This means that, in the face of unpredictable political outcomes, which could be catastrophic from the point of view of wealth protection, very rich political actors have an incentive to exert political influence "at a distance", to avoid becoming too strongly identified with one political force. This gives them the political room to adjust and survive more easily should their current political allies suffer a serious defeat.

<u>v) What is to be done?</u>

Konończuk and Wilson both see the reconstitution of the relationships, processes and mechanisms of the oligarchic system following the Euromaidan revolt as a key obstacle to reform. This has potentially significant implications not only for Ukraine's economic outlook, but also perhaps for its future security and defence capacity. But whereas Konończuk sees a strengthening of state institutions as the crucial remedy (Konończuk, 2016. pp. 6-7), Wilson argues that breaking the links between big business and politicians, while allowing oligarchs to hold on to the assets they already have, would be less disruptive and quicker than either attempting to dismantle the oligarchy directly or cutting it off from all of its corrupt money-making schemes (Wilson, 2016, p. 4). Wilson adds that the survival of the oligarchic system post-Euromaidan may have been enabled in part by the failure of different reformist actors, both from inside and outside Ukraine, to act in concert, in a way that reinforces each other's actions and campaigns (Wilson, 2015, p. 10).

Aslund's main suggestion for the post-Euromaidan authorities is the need to break the power of the old system, which is the source of growth-supressing corruption. By this, he seems to mean only those figures and officials most closely associated with the presidency of Viktor Yanukovych, and looks forward to the results of the law on lustration (a purge of politically tainted public officials) of September 2014. However, as several studies discussed so far in this review have implied, Aslund's identification of the Yanukovych group with the oligarchic system appears to be a misdiagnosis, since the system is wider and more ubiquitous than just the former president's main supporters and entourage. Nevertheless, this fits with the author's view that the presidential and parliamentary elections of 2014 had "put in place political leaders who want to save the country rather than themselves and their families" (Aslund, 2014, p. 243). It points to a more individualistic mode of explanation of the problem (the moral failings of key politicians), rather than a social-structural one (that the "new" successful politicians are part of a system that they promised to dismantle). It also chimes with the author's earlier optimistic conclusions on the "market completing" and democratic breakthroughs achieved by the Orange Revolution (Aslund, 2009), which soon appeared premature.

In his paper, Pleines argues that oligarchs have tended to use their networks of political influence to block reforms and to create rent-seeking opportunities, referring to studies on this in the areas of privatisation, energy, public procurement and state aid (Pleines, 2016a, p. 112). Bringing together this idea with the themes of concentrated wealth as the distinctive basis of oligarchs' political influence (Winters, 2011) and the relative effectiveness of “indirect” strategies of wealth defence (Markus and Charnysh, 2017), a good prospect for further research would be an investigation into the evidence for the continuation of such behind-the-scenes financial-political practices into the Poroshenko presidency. In design, this could aim to show, for example, the correspondence between voting patterns in the Rada with known oligarchic factions and their business interests. By choosing carefully the kind of economic reform legislation being voted on—for example, key judicial reforms or anti-corruption legislation—it could also provide evidence of oligarchs’ political influence preventing the creation of the kinds of economic conditions considered necessary for sustainable economic prosperity, so linking the results of oligarchic politics to expected macroeconomic outcomes. Complementing my proposed research idea on continuity and change of oligarchic economic schemes, this would illustrate the political dimension in the recreation of the oligarchy as an “extractive” institution.

Table 3.3: "Extractive" practices of political influence characteristic of the Ukrainian oligarchy
Oligarchs dominate strategically important economic sectors
Oligarchs hold government posts
Oligarchs hold seats in parliament
Oligarchs pay for representatives to get onto party lists
Oligarchs "sponsor" MPs to gain legislative influence
Oligarchs' MPs sit on or chair key parliamentary committees
Oligarchs fund politicians' election campaigns
Oligarchs dominate TV channels which support or undermine politicians
Politicians need political support of local big business in frontline areas
Politicians ensure associates are appointed to committees, state enterprises, top posts in the state administration (especially those of financial or coercive significance)
Sources: Own compilation from the various authors cited in this chapter.

C. The evolution of Ukraine’s dominant post-communist political economy governance regime

V. Ukraine-Russia energy politics: “asymmetric interdependence” as a wasted opportunity

In her book, Margarita Balmaceda offers a detailed comparative account of how post-Soviet political elites dealt with the political consequences of their dependence on energy imports from Russia in the first decades after the Soviet Union collapse. Although described as “energy poor”, Ukraine’s reliance on Russia for energy imports (excluding of nuclear fuel) was considerably lower than for Belarus or Lithuania (Balmaceda, 2013, p. 93; p. 317). Nevertheless, the relationship led periodically to serious bilateral strains.

Rather than straightforward energy dependence, however, Ukraine’s basic energy relation with Russia is better understood as one of “asymmetric interdependence”, Balmaceda contends. By this she means that post-Soviet Ukraine had significant energy assets with which it could have mitigated the effects of its reliance on energy supplies from Russia. Chief among these assets she counts the Ukrainian gas transit system.

Her main argument, however, is that Ukrainian elites routinely mismanaged this hand, so that valuable national energy assets were not used to further Ukraine’s long-term national interests, such as energy diversification and security. One reason for this is that powerful individuals and networks in both Russia and Ukraine prioritised their private, rent-seeking goals over the public interest. The author describes this “transborder sharing” as one of the main mechanisms for the management of energy conflict in this period. In Ukraine, these flows of energy rents formed a focal point of rivalry and co-operation around which the Ukrainian political and economic elites have cohered in the independence era, at the same time defining an uneasy relationship with their Russian counterparts—that is to say, tying the Ukrainian elite materially to the Russian elite, while subordinating them to it (Balmaceda and Rutland, 2014). A second, related reason for Ukraine's poor management of its asymmetric energy interdependence with Russia is the political influence that the main beneficiaries of the joint energy rent schemes were able to exert, not just on energy policy, but also on aspects of state formation more widely. Specifically, this involved the establishment in the early post-Soviet period, following a phase of considerable flux, of a new understanding of state power and business-political relations, with lasting effects on the country’s political-economic institutions. As a result of these factors, Ukraine was unable to adopt a strong, unified stance on energy policy, or to respond effectively to developments in its external energy environment—such as Russia’s long-term plans to construct energy pipelines to Europe around Ukraine (Balmaceda, 2013, p. 150).

Ukraine's basic energy relation with Russia, at least until 2005, was one of gas imports bartered for gas transit services, but at a preferential price—in effect, a significant energy subsidy. While Russian subsidies afforded both Belarus and Ukraine significant "external" rent-extraction opportunities, Ukraine also generated the "largest range of domestic rent-acquisition opportunities" (Balmaceda, 2013, p. 95). Compared with Belarus or Lithuania, then, one distinguishing feature of Ukraine's energy relation with Russia, and of the joint Ukrainian-Russian gas rent-extraction schemes in particular, was the size of the energy rents available.

An especially useful aspect of Balmaceda's study, from the perspective of my research, is that, in showing how energy rent-extraction operations dovetail into the wider institutional political economy frameworks of the Kuchma and Yushchenko presidencies, she offers a useful, practical example of how to portray the evolving relation between formal politics and business networks as means of analysing the changing political and policy conditions of rent-extraction schemes (this is the subject of Chapter Six). It is to an account of the broad evolution of this relation to which we now turn.

VI. Ukraine's evolving post-communist political economy regime

i) Introduction and purpose

In independent Ukraine, the basic understanding of the relations of power between the central state and the emergent regional business-political groups was established and began to be institutionalised during the first Kuchma presidency, in 1994-99, following the period of uncertainty and flux under Leonid Kravchuk. This is what is meant here by "political economy governance regime"—the evolving relation between political actors holding high public office in the main institutions of the state on the one hand, and the largest and most influential business-economic networks, usually led by oligarchs, on the other, as well as the intertwining of the formal and informal rules and practices[7] that permeate and blur the lines between them. What follows, therefore, is a

[7] By "practice", I mean the routinised actions of individuals that mediate and recreate the social-institutional environment of which they are an active, somewhat creative element.

stylised account of the evolution of Ukraine’s dominant political and economic institutions, and of the shifting relations between them. Its purpose in my study is to provide a backdrop against which the subsequent empirical investigations, on wealth, the Rada and the energy sector, can be read, helping to make sense of them. Table 3.4 below summarises schematically key institutional contrasts between the Yanukovych and Poroshenko presidencies. Although the main focus of the following account is on this more recent period, it is useful to add some information on the structures and events from which they emerged. Along with my own observations based on the research of this and other chapters, this narrative draws in particular on the studies of Avioutskii (2010), Balmaceda (2013), Hale (2015), Matsiyevsky (2018) and Whitmore (2019).

ii) The Kuchma era

A strong presidency was a key institutional feature of the new understanding of the relation of formal and informal political and economic power forged under Kuchma. This was achieved through the passage of a new constitution in 1996, which Kuchma strong-armed the Rada into accepting (Hale, 2015, p. 146). Bolstered by these powers, Kuchma was able more authoritatively to act as an arbiter balancing the interests of the strongest “in-system” regional business-political groups (Balmaceda, 2013, p. 98), originally based in the Dnipropetrovsk, Donetsk and Kyiv regions. They gained economic (rent-seeking) opportunities in return for political support, while Kuchma established a somewhat more stable support base for his presidency within big business. Hale describes this as “patronal presidentialism”, resulting in single dominant “pyramid” of economic and political power, with the head of state at its pinnacle (Hale, 2015, pp. 82-83).

At around the same time, in 1998, Naftogaz was established by Kuchma as the national energy company as a way to centralise and institutionalise the distribution of energy rents, apparently in response to the destabilising impact on the “balancing” system of the activities of one of its constituent networks, that of Pavlo Lazarenko, from Kuchma’s home region of Dnipropetrovsk (Balmaceda, 2013, p. 113). This period is therefore intertwined with the operation of Lazarenko's gas intermediary scheme, analysed in Chapter Six.

iii) The “Orange” era and the Yushchenko presidency

In comparison with the Kuchma era, the presidency of Viktor Yushchenko in 2005-10 is usually characterised as marking a phase of “democratic advance”, leading to a more competitive political environment. Hale describes this as a switch from a more closed to a more open form of politics, which, he thinks, can be visualised using a country’s political rights score in the index produced by Freedom House, a US-funded non-governmental organisation (NGO), for its annual *Freedom in the World* report (Hale, 2015, p. 177; Freedom House, 2021). On this account, the scoring criteria for political rights combine elements of traditional and more modern interpretations of liberal democratic ideals. On the first, the index checks the extent to which policy-making governments have been selected in free and fair elections, underpinned by competitive popular political participation; on the second, it grades countries on whether they have safeguards in place against both public corruption and the exclusion of historically disempowered social groups. In this index, a score of 1 represents the highest level of provision of political rights and 7 the lowest. For comparison, Figure 3.2 below shows a steep deterioration in the situation on political rights in Belarus from the mid-1990s (the dotted grey line), corresponding to the rise to power of Alyaksander Lukashenka, and in Russia from the late 1990s (the dashed grey line). In Ukraine, by contrast, in the post-independence period this score alternates between a score of 4 and 3 (the solid grey line), corresponding roughly to phases of greater authoritarianism associated with the Yanukovych and second Kuchma presidencies, and the return to more open and democratic situations under Yushchenko and Poroshenko, respectively.

Such indexes are not unproblematic, however. They can, for example, smuggle in unexamined or contested assumptions, while the presentation of results as numbers can lend a misleading air of scientific objectivity to analysts’ inevitably somewhat subjective judgements in matching developments to scoring criteria.

More seriously, perhaps, they can be accused of the basic sociological error of attempting to describe one set of societies—those in eastern Europe, in this case, which have arrived at modernity through their own specific paths—in terms of the political categories, concepts and institutions developed out of the historical experience of another set of societies, ie of the liberal democratic market societies of north-western Europe and the United States, thereby setting benchmarks for political and economic development that they may be unsuited to achieve (Magyar and Madlovics, 2020, pp. 1-3).

Figure 3.2: Political rights scores for Ukraine, Russia & Belarus, 1991-2017.
Source: Freedom House (2021). Freedom in the World: All Data, FIW 2013-2021. Available from: https://bit.ly/3zHrvUp. [Accessed July 3rd 2021.]

Under Yushchenko, greater political openness was facilitated by the appearance of multiple nodes of political power, itself partly a response to the switch to a constitution—written in 2004, but only introduced at the start of 2006—in which the powers of the president and prime minister were more evenly dispersed[8]. Acute political rivalry went on not just within the winning “Orange” camp, however, between the business-political networks aligned to President Yushchenko and those around Yuliya Tymoshenko as prime minister, but also included the “blue” camp, defeated temporarily by the Orange Revolution, for which Yanukovych was the leading political representative. In particular, the RosUkrEnergo (RUE) gas intermediary scheme, which ran throughout this period and is also analysed in some detail in Chapter Six, became a focal point of contestation between the network clusters. Despite the widespread use of informal methods in the tightly run 2010 presidential

[8] See Chapter Five for a brief discussion of the difference between them.

campaign, Hale argues, electoral integrity and media freedom were maintained (Hale, 2015, p. 336).

The Yushchenko presidency also saw the rise to political prominence of the leaders of business networks—such as that of Petro Poroshenko, centred on his Ukrprominvest holding company, or of Kostyantyn Zhevaho, at the head of Finances and Credit—that had been more on the periphery of the Kuchma system (Balmaceda, 2013, p. 101). While the changed political situation gave business-political groups greater room for manoeuvre, allowing them to align and break alliances more fluidly, on a somewhat ad hoc basis, the same developments brought about institutional deadlock, hindering economic reform (Balmaceda, 2013, pp. 96-97), as rival network "pyramids" around the three political poles fought one another, unsuccessfully, for pre-eminence.

iv) The Yanukovych presidency

Following his victory in the 2010 presidential contest, Viktor Yanukovych moved quickly to construct a more unified power structure reminiscent of the Kuchma years. In Hale's terminology, he moved to re-establish a "single pyramid" network structure.

A crucial early step in this process was the appointment of a prime minister, Mykola Azarov, from among Yanukovych's close associates, so securing control for his group, linked centrally with the Donbas region, of the two leading state executive posts while the 2004 premier-presidential constitution was still in place. This was facilitated through the co-option of Volodymyr Lytvyn, the speaker of the Rada, who had been part of Tymoshenko's parliamentary coalition (Hale, 2015, p. 343). Arguably, the most important step, however, involved engineering a restoration of the 1996 "Kuchma" constitution, which returned to the presidency some of the formal powers that had devolved to the prime minister following the Orange Revolution of 2004-05. When blocked on this in the Rada, Yanukovych was able to side-step the legislature by packing the Constitutional Court, which subsequently rescinded the 2004 constitution on the grounds that the correct procedures for its introduction had not been followed (Hale, 2015, p. 345; Minakov and Rojansky, 2021, p. 324), so restoring stronger powers to the presidency.

During the Yanukovych presidency, the Rada was dominated by a single political machine, the Party of Regions (PoR), originally created by the leading political-business networks of the Donetsk region in the late 1990s. Additional means used to control legislative outcomes included the financial inducement of deputy defections (recorded in the PoR's "black ledger", as is noted in Chapter Five), as well as the manipulation of electoral rules in time for the 2012 parliamentary election to sustain the PoR's Rada representation (Hale, 2015, p. 349). With his presidential powers strengthened, and in control of the executive and legislative branches of government, Yanukovych and his team were able to extend their control over other state institutions, including the judiciary.

Yanukovych's presidency has frequently been characterised as a period of "democratic backsliding" or increased authoritarianism, owing mainly to his jailing of prominent political opponents (Tymoshenko and Lutsenko), and to an increase in harassment of media outlets (Hale, 2015, p. 346, 348). Given the rapid fall in Yanukovych's poll ratings following his electoral win in 2010, the purpose is assumed to have been to create conditions more favourable to his retaining the presidency in the election then planned for 2015.

Moreover, Yanukovych based his political economy governance system on a narrower range of business networks—primarily the Donetsk network of Rinat Akhmetov, for which Yanukovych had been for some time the main political face, and of Dmytro Firtash, another key financer of his 2010 presidential campaign—while building a network of his own, dubbed "the family" (Wilson, 2015, p. 345). One of the key means by which "the family" was built up economically was by using state institutions, especially the tax authority, to predate the businesses and income flows of actors lower down the business/ power hierarchy.

Table 3.4: Continuity & change in Ukraine's political economy governance regime between the Yanukovych & Poroshenko presidencies, 2010-17

(Who are the key actors? Which institutions? How have relations between them shifted?)

Regime element	Yanukovych presidency	Examples & comments	Poroshenko presidency	Examples & comments
Constitution	Restoration of 1996 constitution: president-parliamentary		Restoration of the 2004 constitution: premier-presidential	Crucial difference: The prime minister is selected and dismissed by parliament.
Government/ executive	President ensures the appointment of his own candidate as prime minister, Azarov		First, a political rival (Yatsenyuk), then a "network" appointee (Hroysman), as prime minister	
Role of the president	President moves quickly to extend control to the three branches of the state: government, legislature & judiciary	Inept response to the 2013/14 mass protests eventually brings down the carefully constructed edifice of power centred on the president.	Despite the "balanced" constitution, Poroshenko manages to force Yatsenyuk out & to bring in his own candidate as PM; to extend control to key state institutions: executive (Hroysman), parliament (deal with post-PoRs), judiciary (Lutsenko); to regain right to appoint regional governors; to become the pre-eminent national political actor: more like Kuchma, an arbiter of business-political networks?	Why was Poroshenko more successful/ effective than Yushchenko? Better all-round training in the inner workings of the oligarchic system. BUT what conjunction of structures allowed those factors to play a role? This is the "Lenin in the Russian Revolution" question: an alignment of structures allows experienced, gifted, bold, confident, intelligent leaders to take the opportunities that conjunction of structures (and contingencies) presents.
Role of the prime minister	Executor of the president's policies?		First rival, then "Vinnytsya" appointee	
Judiciary			Lutsenko as general prosecutor, & "auxiliary" anti-corruption bodies, to defend current "in-system" elite, & habitual mode of operation of the elite, from encroachment of other institutions attempting to apply the rule of law impersonally (the NABU).	Judiciary network placements & an auxiliary anti-corruption body, to defend against the actual anti-corruption body?
Operation of politics in the Verkhovna Rada	Single regional party "machine" dominates, albeit through manipulation of electoral rules (reintroduction of single mandates in time for 2012 Rada election) & alliance with the reconstituted Communists.		Multiple party coalition required to pass legislation. President's & PM's political vehicles as pillars of Rada support for the government; first relying on "Euromaidan" parties, then more on post-PoR & "old" oligarch MPs, representing 3rd stage of reintegration of oligarchs, after governor appointments & election funding.	The relatively durable or more fleeting sub- & cross-factional groups of the old oligarchs in the Rada are not the exception: the norm is i) parties as vehicles for politically successful network leaders; ii) parties as businesses offering their votes for purchase (using their mobilisational ability, they are able sell capacity to affect legislative outcomes as a service to elite factions); iii) the sub- & cross-factional groups of the "old" oligarchs are not the exception, but part of this wider norm, a means of transacting individual policy outcomes, deals & alliances.
Main supporting business networks	SCM/ Akhmetov & aligned Donetsk networks; Group DF/ Firtash organisation, with strong links to Gazprom; the predatory rise of "the family": Yanukovych uses state apparatus as a means of developing a network base, independent of Akhmetov: destabilising attempt to move from role as network representative to network player.	A fairly narrow range of "inside" networks	Pre-election "elite agreement" with Firtash in Vienna. The Vinnytsya clan & the "new" oligarchs. The link-up with & then side-lining of Yatsenyuk-Kolomoyskyi network reflects Poroshenko's struggle with both: forced to rely on Akhmetov from 2016: Hroysman marks a new deal between elites; Avakov rises within Yatsenyuk's group.	Overall, a more diffuse or shifting set of networks than under Yushchenko, but, once Yatsenyuk side-lined, more like Kuchma, albeit with more evenly balanced constitution in place.
Overall network structure	Single pyramid of networks/ vertical of power		Competition between network pyramids: BPNs align & realign behind competing political leaders, but then Yatsenyuk-Kolomoyskyi node weakened.	What are they competing for? Position, to secure old/ new rent-extraction schemes by way of political links. Eg: to loosen implementation of energy sector reforms, re-permitting arbitrage rents. To begin new rent schemes to replace those undermined by the shift in the geo-politics behind the traditional energy rent schemes.

Table continued overleaf…

Table 3.4: Continuity & change in Ukraine's political economy governance regime between the Yanukovych & Poroshenko presidencies, 2010-17				
(Who are the key actors? Which institutions? What shifting relations between them?)				
Regime element	**Yanukovych presidency**	**Examples & comments**	**Poroshenko presidency**	**Examples & comments**
Closed or open politics?	Closed	Jailing of political opponents through judicial control; harassment of independent media	Open	Open, but still with formal politics subordinated to informal, because that's what you know, that's how you "get things done".
Political economy regime	Dominance of informal practices & arrangements, for which the operation of the rule of law is a hindrance.	Insider privatisations, eg of energy sector infrastructure; re-invention of RUE gas intermediary rent extraction scheme as Ostchem; padding of government procurement contracts; "black ledger" payments for Rada votes.	Dominance of informal practices & arrangements, for which the operation of the rule of law is a hindrance: wide reforms in areas less essential to the system, essential key sub-institutions much as before (presidential administration, the Rada, the courts, Naftogaz); continuation of "patronal" mode of politics in setting in which elites groups compete.	The devolution of territorial defence to oligarch networks (1st stage of systemic reintegration); election funding (2nd stage); quota system for government posts and Rada committees, based on loyalty, retained; secret elite agreements; control of MPs' votes (as retainers or for one-off votes), as basis for understanding old oligarch vote patterns.
Conclusion: "circulation of elites"			Some turnover of system personnel, & removal of those most compromised politically, but continued dominance of informal practices, some old, some new, even amid more open media & elections: it is the mode of political economy governance that makes it a "regime".	No reset of the informally dominated system, even as elements & alignments within it, the networks & official positions, alter & adapt. It is a mode of politics of making & breaking political alliances that requires flexibility regarding formal rules & political-economic organisation, to which networks, factions, sub-factions & cross-factions are "suitable" & "correspond".
Sources: Avioutskii (2010); Balmaceda (2013); Hale (2015); Wilson (2015, 2016); Matsiyevsky (2018); Minakov (2019); own findings, including from my empirical chapters.				

But for a series of blunders by his government, which each time re-stoked the Euromaidan protests just as they appeared to flag (Hale, 2015, pp. 235), Yanukovych's "vertical of power" might well have survived the wave of anti-government protests triggered from late 2013 by his refusal, under pressure from Russia, to sign the long-planned association agreement (AA) with the EU. However, it was the sharp escalation of political violence towards the end of February 2014, leaving scores of dead, that saw the networks of support around Yanukovych first fray, and then abandon him *en masse*, in what scholars of revolutions would describe as a classic "central collapse" scenario of state breakdown (Goldstone, 2014a, pp. 27-28; 2014b).

Table 3.4 above offers a recap of the key institutional features that, in combination, characterise the Yanukovych era, and a schematic summary of how these features changed under Poroshenko, informing the broad political economy narrative of the early years of his presidency which follows.

<u>v) Post-Euromaidan: the interim government</u>

Immediately after the collapse of Yanukovych's "power vertical", leaders of the parliamentary opposition who had been among the most visible supporters of the Euromaidan protests came to the fore politically at the head of an interim administration. Of these, Arseniy Yatsenyuk, as interim prime minister, and Oleksandr Turchynov, taking on the roles of interim president and Rada speaker, emerged as the central figures, holding between them the three most powerful formal state posts. As regards changes to formal political institutions, perhaps the most crucial phase of their "duumvirate" involved the passing in March 2014 of legislation ejecting Yanukovych from the presidency for desertion, laying the groundwork for a pre-term presidential election later that year, and restoring the 2004 "premier-president" constitution (Matsiyevsky, 2018, p. 352). These decisions were made not just with the backing of the pro-Euromaidan Rada parties, but also of some former PoR MPs anxious to distance themselves from Yanukovych's administration (see Chapter Five).

The period of rule of the interim government coincides with the rise to its high watermark of the political influence and prestige of the Kolomoyskyi/ Privat business-political network[9]. Its early alignment with the Yatsenyuk-Turchynov team is suggested not only by Kolomoyskyi's appointment as governor of Dnipropetrovsk in March 2014, but also, as Konończuk suggests, by the apparent protection of his economic interests by their parliamentary political vehicle, the People's Front, into the eighth convocation of the legislature, after December 2014 (Konończuk, 2016, p. 18). Kolomoyskyi's association with the politicians around Fatherland (as well as its forerunners and offshoot parties), and especially Tymoshenko, can be traced back considerably further (Avioutskii, 2010, p. 123).

vi) Post-Euromaidan: the Poroshenko presidency

Continuity of practices

Between the Yanukovych and the Poroshenko presidencies, writes Matsiyevsky, "the leadership changed, but the regime remains the same" (Matsiyevsky, 2018, p. 350). His paper covers a number of the topics that are central to this study, including on the continuity of the political regime between the pre- and post-Euromaidan periods. In particular, he stresses the carryover of informal political practices, including secret deals between elite actors, as

[9] That is, until its re-emergence with the victory of Volodymyr Zelenskyi in the presidential election of 2019, which is after the timeframe of this study.

well as the operation of quotas for government posts. (My interest, by contrast, is a little wider, taking in the process of reproduction of Ukraine's political economy model, popularly termed "the oligarchy", as a whole, rather than just its political dimension.) In his estimation, Ukraine's political regime has changed only once in its modern history—that is, from the set-up of the Soviet era to the one established in the years following the Soviet Union's demise (Matsiyevsky, 2018, p. 349). The latter he describes as "hybrid", because, despite the maintenance of democratic structures, informal rules and practices have continued to dominate, so preventing the development and acculturation of rule-of-law norms (Matsiyevsky, 2018, p. 350).

Election and relevant biographical experience

Following the reversion to the 2004 constitution with its reduced presidential powers, but with the war with Russia still in its somewhat clandestine early stages, Petro Poroshenko won a convincing victory in a hastily prepared presidential contest at the end of May 2014 (Wilson, 2014, p. 151-152). After this, he and Yatsenyuk, as president and prime minister, became the two main political focal points around which competing business-political networks would align, in keeping with Hale's broad prediction about elite politics in a patronal society under a "divided executive" constitution, in which the prime minister is chosen by parliament (Hale, 2015, p. 77, 80).

According to Havrylyshyn, Poroshenko's higher-education was at the Institute of International Relations in Kyiv in the early 1990s, when he seems to have put to good use the knowledge and connections developed there to start a business importing cocoa beans, which grew eventually into his Roshen confectionery business (Havrylyshyn, 2017, p. 205). By the time of the Euromaidan in 2013/14, however, he had built up a large business empire gathered (until 2012) under the Ukrprominvest holding company[10], which included interests in vehicle and boat production, as well as banking. According to the Focus, Poroshenko's domestic business wealth by this time was estimated at more than US$900m, placing him sixteenth on its rich list. Although this sum had fallen in US dollar terms by 2017, linked to steep

[10] Holding, that is, shares in a number of subsidiary businesses.

depreciation of the hryvnya, it rose slightly as a share of national wealth, and his ranking crept up to 11th place (Focus, 2014, 2018). With the release of the so-called Panama Papers, Poroshenko, already believed to have considerable financial wealth abroad, was shown adding to this after he has become president, appearing to take time in August 2014 to attend to the issue just as the disastrous battle of Ilovaisk was taking place (Garside et al, 2016). Moreover, by the onset of the Euromaidan revolt, Poroshenko had built up considerable political and administrative experience, having held high-level public positions under Yushchenko, first as the head of the National Security and Defence Council, Ukraine’s main organ of security policy, then as chair of the National Bank of Ukraine (NBU; the central bank) and foreign minister. He also served briefly as minister of economic development and trade under Yanukovych.

Although Poroshenko qualifies amply, therefore, as an oligarch on the definition used in this study—that is, of a very wealthy business leader involved in national politics—he was, up until that point, a rather “second tier” figure. It was his backing of the Euromaidan protests at an early stage, as well as his image as a “safe pair of hands” following Russia’s military annexation of Crimea and its stoking of armed insurrection in the Donbas, that propelled him to the front rank of the country’s political-economic actors.

The Vinnytsya group: a “territorial” group before his presidency

A notable feature of political economy governance structures under Poroshenko was the deployment to key institutions of the state apparatus (such as the Rada, public enterprises, judicial bodies and the general prosecutor’s office) of personnel from Poroshenko’s own business-political network, the so-called Vinnytsya group, previously a relatively minor network based on Poroshenko’s home region in central Ukraine (Andrusiv et al, 2018, pp. pp. 65-66). From this set of connections was later drawn not only an “in-group” prime minister, Volodymyr Hroysman, but also parliamentary fixers (Serhiy Berezenko), as well as “overseers” of state-owned enterprises[11], some of whom became the “new oligarchs” that

[11] Ihor Kononenko, for example, is reported to have been Poroshenko’s overseer for the energy sector: Andrusiv et al (2018, p. 15).

Konończuk refers to above, based on the wealth they were able to accumulate from these official positions.

Early link up with the Firtash network

Moreover, by the time of the 2014 presidential election, Poroshenko appears already to have come to an arrangement with at least one of the major oligarchic blocs. Specifically, the network alliance centred on the Group DF businesses of Dmytro Firtash, with its economic base in gas, chemicals and the media, but also including the distinct but aligned networks of Serhiy Lyovochkin and Yuriy Boyko, was reported to have struck a deal with Poroshenko ahead of the campaign. This view is supported, for example, by reports of a covert meeting of Poroshenko and Vitaliy Klychko with Firtash in March 2014 in Vienna, ahead of the 2014 presidential election, apparently to gain his blessing for their plan for Poroshenko to run for the presidency and Klychko for mayor of Kyiv, the Ukrainian capital. Allegedly, in return for support for their political ticket, immunity from prosecution was offered to key Firtash associates still in Ukraine (Francis, 2016, p. 7). Lyovochkin, for example, had been head of the presidential administration under Yanukovych, while Boyko was energy minister in the same administration. This arrangement may also have paved the way for the later merger of Klychko’s Ukrainian Democratic Alliance for Reform (UDAR) political group with the president’s parliamentary party, the Petro Poroshenko Bloc (PPB), set up to support his administration in parliament after his presidential win.

Matsiyevsky sees the meeting with Firtash as an example of the continuation of the political practice of the “secret” elite deal, echoing back to late Soviet times at least, when Ukraine’s embryonic democratic forces struck a bargain with the “nationalising” communists around Kravchuk to secure “Ukrainianisation” following independence (Matsiyevsky, 2018, p. 351). Moreover, in Konończuk’s analysis, it is worth recalling, the expensive election campaigns of 2014 should be counted among the key “moments” in which the old oligarchs, temporarily on the back-foot after the Euromaidan, again began in stages to step back into their customary roles in the political process, as political candidates and parties drew on their funding and media backing (Konończuk, 2016, pp. 15-16).

The Rada

If under the Yanukovych system a single political machine dominated the legislature, the political scene in eighth convocation of the Rada, after December 2014, by contrast, appears more factional and fragmented organisationally. As a result, broader and more fractious coalitions of parties and factions were required to pass government legislation. As shown in Chapter Five, there is a break in the pattern of alignment of elite political and economic forces in parliament between the second Yatsenyuk government, in office from December 2014, and the premiership of Volodymyr Hroysman, beginning from mid-April 2016. Throughout this period, up until the end of 2017, the political vehicles of Poroshenko and Yatsenyuk—the Petro Poroshenko Bloc and People's Front—remained the principal means for supporting the passage of government bills. The necessary auxiliary support, however, came from different political sources during the Yatsenyuk and Hroysman administrations—that is, from the pro-Euromaidan parties in the first case, but with increased reliance on backing from the post-PoR parties and MPs associated with "old" oligarchs under the second.

The rehabilitation of Akhmetov/ SCM network, in part to offset the destabilising influence of Kolomoyskyi

This break coincides with the "rehabilitation" of Akhmetov and his System Capital Management (SCM) business-political network. As a leading backer of the Yanukovych presidency, tarnished both by his association with Yanukovych and his ambiguous dealings with Russian-backed separatists in the Donbas in 2014 before he fled west, Akhmetov's public image and prestige had plummeted in the immediate aftermath of Yanukovych's abscondment from the capital. As with the meeting with Firtash, according to Matsiyevsky, the parliamentary realignment of forces in 2016 under Hroysman again reflected a secret agreement between sections of the political and economic elite (Matsiyevsky, 2018, p. 353). In particular, the authorities—at least those in Poroshenko's orbit—may have enlisted the support of Akhmetov and his group to counterbalance the ambitions of Kolomoyskyi and his Privat network, with which the "pyramid" of networks around the president had been engaged in protracted struggle from relatively early on in the Poroshenko presidency (this conflict is detailed in Chapter Six). The shift in the pattern of parliamentary support and the rehabilitation of Akhmetov makes sense in context of this tussle with Kolomoyskyi, who aligned his group and resources behind the rival political node around Yatsenyuk (see above).

These movements in the relative position to political authority of the leading business-political groups are a feature of the first two or three years of the post-Euromaidan era. In this sense, the political fortunes of Akhmetov and Kolomoyskyi in this period were on opposite trajectories, while the ongoing struggle between them is an additional underlying dimension of the behind-the-scenes politics of the period.

The formation of the Hroysman government marks temporary resolution to this struggle, with Poroshenko able to extend control to different parts of the state

At the formal political level, this struggle of rival networks concluded, at least temporarily, with the removal of Yatsenyuk as prime minister in 2016 and his replacement with Hroysman, a close associate of the president from Vinnytsya, at once securing for the alliance around Poroshenko control of the two key state executive positions and echoing Yanukovych's placement of Azarov into the post six year earlier. In the wake of this victory for his "pyramid" in the executive and legislative branches, Poroshenko moved to bolster his position further by extending his control of other strategic institutions in the state apparatus, despite the hindrance of reduced presidential powers. In May, for example, taking advantage of the wide-spread public criticism of the prosecutor general, Viktor Shokin, over his failure to prosecute any high-profile corruption cases, Poroshenko was able to replace him with another loyalist, Yuriy Lutsenko, despite the latter's lack of legal qualifications (Polityuk, 2016). Moreover, at the end of 2017 Poroshenko was able to re-acquire the right to nominate regional governors (Matsiyevsky, 2017, p. 354), a key mechanism of the maintenance of the "power verticals" in both Russia and Belarus also (Savchenko, 2009, p. 187).

Not only old oligarch rehabilitation, but economic recovery, encourages retrenchment on reform

While the switch from the Yatsenyuk to the Hroysman premiership corresponds to a re-incorporation of some of the Yanukovych elites back into the formal political process, it also seems to correspond to a slowdown in the pace of economic (and other) reforms. Alongside the realignment of parties and networks in parliament, this may be linked also to the onset of modest economic recovery, following a largely successful, albeit socially painful, macroeconomic stabilisation programme. As in earlier phases of reform in Ukraine, economic stabilisation and recovery seems to have led elements within the governing elite to conclude that post-Euromaidan economic reforms had gone far enough, triggering in February 2016 the dramatic resignation of the reformist economy minister, Aivaras Abromavičius, and his team (Havrylyshyn, 2017, p. 173).

Why was Poroshenko more successful in the presidency than Yushchenko?

A question that arises from this overarching narrative is why Poroshenko proved more successful as head of state than Yushchenko in turning himself into the pre-eminent national political figure, even though both operated under constitutions with weaker formal presidential powers.

A possible answer lies in the elements of Poroshenko's personal biography, sketched above. In particular, owing to his wide and varied experience working within constituent parts of the oligarchic system—both in government and business, and at the regional, national and international levels—Poroshenko had equipped himself to become a more adept operator within its very specific institutional constraints. In short, better familiarised with more of its subsystems, he was better able to make use of the fluidity of movement that oligarchic institutional structures afford to the heads of the most powerful business-political networks, so enabling the making and breaking of deals and alliances on an ad hoc basis—which the system requires to function—especially for those with access to both formal and informal levers of power. This is why, contrary to more individualistic modes of explanation, the perennial failure of reform in Ukraine is not mainly a question of the absence of "political will", but of a specific kind of institutional logic, informing and constraining the actions of individuals, so that, by conditioning their understanding of what politics is, they internalise and reproduce its behavioural norms in their actions.

<u>Some conclusions on the political economy governance structures under Poroshenko, compared with earlier phases</u>

Overall, the mode of alignment of elite political and economic power post-Euromaidan can be described as a return to greater network rivalry around the two main political leaders—first Turchynov and Yatsenyuk, then Poroshenko and Yatsenyuk, but with Poroshenko eventually displacing his rival and exerting greater control over key areas of the state, while attracting the support of a wider range of business groups than under Yanukovych. However, this arrangement was perhaps more unstable, because informal, than it might have been under a more presidential constitution.

This creates the impression of a shifting pattern of alignment of business networks undergirding the mode of political economy governance of the Poroshenko presidency, which was both more successful in centralising authority than under Yushchenko, but also based more pragmatically on a wider range of business-political groups. It was not a single pyramid system, as under Yanukovych, but, after the side-lining of Yatsenyuk, it developed into something perhaps more resembling Kuchma's "balancing" system.

While it is vital to understand how elite political and economic alignments change the overall institutional architecture of a period, it is also important to stress, as does Matsiyevsky, that despite changes in institutional personnel (in the government, the Rada, at the top of state enterprises and the civil service), and despite the removal of Yanukovych's inner circle, the continuation of an informal mode of activity signals the continuity of political economy regimes between the Yanukovych and the Poroshenko periods, showing that although the Euromaidan can be described as a political revolution, it was not a social one touching on basic relations of ownership and power (Matsiyevsky, 2018, p. 350).

As to what drives the rivalry between political-business networks, what they are competing for, the reading of the conjoined theory developed earlier in this study would be that the purpose is both to protect existing business assets, as well as to access wealth-enhancing rent-extraction opportunities, by way of personal connections to the state.

Secondarily, but to the same end, it could be argued, such networks are interested in guarding against reform measures that create obstacles to their customary mode of doing business, accepting such reforms in a crisis when they must, but preventing their effective implementation or reversing them when they are in a position to do so.

D. Summary of possible research gaps

Table 3.5 below summarises the possible gaps in the academic research identified in this chapter. The greyed-out areas of the table indicate research ideas that went in a more straightforwardly macroeconomic direction than the research project eventually took, so that the text relating to them has been removed.

Table 3.5: Gaps in the market: summary of possible research opportunities (ROs) identified

		Idea 1	Idea 2	Idea 2
RO 1	Topic	Definitions & concepts	Wealth estimation & dynamics	Evolution of elite political networks
	Research idea	Application of the analytical distinction between oligarchs as wielders of material resource power vs the Ukrainian oligarchy as an informal institution of the rich in alliance with the political & state elites	Develop data set as the basis for a description of oligarchs' wealth, vs Ukrainian society & in international comparison	Show realignment of key business leaders & networks with successful political leaders, before & after Euromaidan
	Pursued?	✓	✓	Partially
RO 2	Topic	Extractive economic schemes		
	Research idea	Continuity & change in the economic schemes of the Ukrainian oligarchy before and after the Euromaidan revolution		
	Pursued?	✓		
RO 3	Topic	Extractive political influence schemes		
	Research idea	Continuation of under-the-surface material political influence into the Poroshenko presidency: voting in the Rada of institutional prosperity legislation		
	Pursued?	✓		
RO 4	Topic	Austerity		
	Research idea	Stabilisation policy and the unintended side-effects of the austerity policies		
	Pursued?	✘		
RO 5	Topic	Policy as an outcome of rivalry of political networks		
	Research idea	Case study on the nationalisation of PrivatBank		
	Pursued?	✘		

Chapter Four. Wealth concentration and dynamics of the very rich in contemporary Ukraine

A. Preliminaries

I. Introduction

i) Aims and basic definitions

The aim of this chapter is to consider whether wealth remains sufficiently concentrated within Ukraine's post-Euromaidan economic elites, and especially the oligarchs among them, for it still to be considered a source of significant potential political power, or whether a reduction in wealth concentration implies a corresponding decline in political influence. To recap, concentrated material resource power (wealth) is what allows its holders (oligarchs) to achieve their political ends, of protecting and augmenting their economic and social positions, through the hire of coercive and professional services. It allows them "to purchase the sustained engagement of others who require no personal commitment to the goals of the oligarchs they serve" (Winters, 2011, p. 18). An investigation of elite wealth in Ukraine has been placed first of my empirical chapters. This reflects the thinking behind the "currency flow" model, outlined in the opening chapter, which I develop in the conclusion to this study (Chapter Seven). In this model, accumulated wealth is viewed as both the facilitator and end goal of an ongoing process of wealth concentration which is, at the same time, the cycle of reproduction of the Ukrainian oligarchy as a political economy institution.

If wealth is conceptualised as a material resource power, however, as a basic operational definition, corresponding to data about the real world, it can be described as the combined value of physical and financial assets, minus debt (Stillwell, 2019, pp.18-19). Some differences in definitions and measures of wealth are discussed below.

ii) Topic, research design and approach

In this chapter I assess the level of wealth of the richest Ukrainians in international comparison and relative to Ukrainian society—with a special focus on identifying Ukraine's leading oligarchs as the politically active subset of them—showing how these have changed between the 2010-13 and 2014-17 periods. In the first half of the chapter, the data sets necessary to measure the wealth of the very rich relative to Ukrainian society are developed. The periods 2010-13 and 2014-17 were chosen for comparison because they are those leading up to, and following on from, the Euromaidan protests of late 2013 and early 2014, corresponding to the first four years of the presidencies of Viktor Yanukovych and Petro Poroshenko, respectively. The Euromaidan revolt was, I would argue, the most significant domestic political event in Ukraine since independence in 1991, more so still than the Orange Revolution. It led, for example, to a higher degree of personnel turnover in key state institutions, such as the Verkhovna Rada (parliament), than in the Orange Revolution (Sadowski and Pohorila, 2018, p. 28); to the most extensive phase of political and economic reform since independence (Balcerowicz, pp. 162-163); to a much higher incidence and intensity of violence, generated both inside, but especially from outside, the country; to the unprecedented activation of civil society, along with a marked shift in public support for Ukrainian membership of key Western organisations, such as the EU and NATO (Sakhno, 2017). The reason that the Euromaidan was chosen as the dividing line between the "before" and "after" comparative periods, therefore, is not just because the protesters managed to topple the Yanukovych government, but also because this appeared as a "critical juncture" (Hale, 2015, p. 67), a moment in which Ukraine's existing political order found itself in disarray. For a short time, this seemed to open up the prospect of radical overhaul of Ukraine's political institutions, including through the explicit policy of "de-oligarchisation" (Halling and Stewart, 2016).

The approach I use to investigate the Ukrainian oligarchy in this chapter is to examine the relative material resource power (domestic business wealth) of key individuals within it, and how this has changed between the Yanukovych and Poroshenko presidencies. Alongside Winters' power resources theory, my of approach was conditioned by the information available—in particular, by the production of wealth statistics and documents by official agencies, as well as of local journalists' and think-tanks' reports on the membership and workings of business-political networks. The focus on the material power of oligarchs need not, I think, equate to methodological individualism, which stresses the role of individual action in explaining social phenomena, rather than larger-scale group dynamics (Inglis and Thorpe, 2018, p. 121; Little, 1991, p. 183). Instead, it is a special take on the problem of collective action that is justified by the social character of the Ukrainian oligarchy itself—that is, not just by the position of oligarchs as leaders of hierarchical business networks that enable and magnify their power as individual actors, but also by the shifting position of the networks, both to one another and to the state. This, in turn, points to a situation, in the absence of a fully effective rule-of-law state capable of protecting property claims even-handedly, in which rivalry between the very wealthy can make it difficult for them to work together routinely in the interests of the group, other than perhaps in an emergency, when the groups' existence is threatened from without.

iii) Statistics and levels of measurement

The main method of analysis in this chapter is simple statistics, supplemented by document analysis—that is, by close reading of relevant local reports. The choice of which statistical method to use depends on the kinds of data being examined or compared—specifically, on their "levels of measurement". Roughly, this boils down to whether a variable is composed of categories or numbers, and whether the comparison is between variables of the same or a different type. There are four such levels, with nominal, ordinal, interval and ratio variables in order permitting increasingly sophisticated analytical techniques. For variables with only a few categories (nominal or ordinal data), cross-tables and histograms are appropriate analytical and graphical tools for an initial assessment of patterns of relationship. For variables with many categories (interval-ratio data), measures of central tendency (mode, mean and median) and dispersion (standard deviation and interquartile range) are the right summary statistics, while scatter graphs, strip charts or box plots may be suitable for investigating variable relationships visually, in order to identify the direction of skewness (lop-sidedness) in the series, for example, or the distorting presence of outliers.

iv) Chapter structure and main argument

The rest of this chapter is divided into three sections. The first is a brief assessment of Thomas Piketty's *Capital in the Twenty First Century* (2014). The purpose of this is to introduce some terms, definitions and tools basic to the field of wealth inequality. It also aims to position my research on the wealth of the Ukraine super-rich in the wider context of the quite recent re-emergence of wealth inequality as a subject of academic study. A second section examines different sources of wealth data, the methodologies used to compose them and the reasons behind my choice of data series. Here, I develop and summarise the two main data series used in this chapter, one on the domestic business wealth of the Ukrainian super-rich (Focus-100) and the other an estimate of the national wealth of contemporary Ukraine, calculated from the country's national accounts.

The third section is where the original empirical analysis, using these two main data sets, gets under way. This section is composed of three related analyses, of Ukraine's wealth concentration in an international context; of the dynamics of the domestic business wealth of the top 100 Ukrainians in 2006-17, relative to national wealth; and of the longevity of individuals on the Focus-100 rich list, leading to an identification of the composition of the stable "core" of the economic elite.

The chapter ends with a recap of its main findings and some conclusions. The key research question for this part of my research is whether the wealth of Ukrainian oligarchs since 2014 remained sufficiently concentrated, relative to Ukrainian society, for it still to be considered a major "material resource power" in national politics. My argument is that, although in 2010-17 the domestic business wealth of the Focus-100 economic elite is found to have fallen by half as a share of national wealth, this need not imply a decline of elite and especially of oligarchic capacity to influence political and policy outcomes in their favour, not least because the economic crisis of 2014-15 will have magnified the potential domestic political impact of wealth already held abroad. Moreover, and at least as importantly, the informal business-political networks through which wealth is transformed into political influence in Ukraine were able to survive the political disjuncture of the Euromaidan more or less intact.

II. The re-emergence of wealth inequality as a subject of enquiry: Thomas Piketty's *Capital in the Twenty-First Century*

Until quite recently, wealth and its social distribution did not tend to be treated extensively in economics. An important intellectual factor behind this is that, for the dominant neo-classical school, the main business of analysing the logical outcomes of the interaction of the constrained economic choices of individuals begins after the distribution of wealth has taken place, with the prior allocation of “resource endowments” considered “exogenous” (Caporaso and Levine, 1992, p. 89; Stilwell, 2019, p. 96). This contrasts sharply with the picture before the rise of the neo-classical paradigm from the 1870s, when the issues of wealth, social class and the distribution of the economic surplus were more central to political-economic analysis (Stilwell, 2012, p. 152).

In the past decade, however, wealth as a subject of academic investigation has re-emerged, in part boosted by the worldwide success of Thomas Piketty's *Capital in the Twenty-First Century*, which investigates in considerable empirical detail the changing patterns of economic inequality in western Europe and the US over the long term. Piketty pioneers an approach to the measurement of economic inequality based on reconciling information from a variety of sources—of tax returns with asset values from national accounts, for example. He couples this with a mode of presentation of national wealth as a developing multiple “of the number of years of national income required to amass it” (Piketty, 2014, p. 19).

Since two of Piketty's key definitions are central to the concerns of this chapter, I will reproduce them here. The first is of national income, a “flow” concept, or measure of change over time. This he describes as “the sum of all income available to the residents of a given country in a given year, regardless of the legal classification of that income” (Piketty, 2014, p. 43). The second definition is of national wealth, a “stock” concept, or measure of accumulation. Piketty describes it as the “total market value of everything owned by the residents and government of a given country at a given point in time” (Piketty, 2014, p. 48).

For analytical purposes, this is divided into financial and non-financial assets. Financial assets include bank deposits, securities (shares and bonds), and investment funds. Non-financial assets are comprised of the things that firms use to make goods and services (machines, business premises, inventory and infrastructure), as well as housing, land, and natural resources. Whether these assets are owned by individuals or by the government gives rise to a distinction between private and public wealth, which is central to Piketty's descriptive analysis of the broad developments of national wealth-income ratios over time.

Traditionally, economics students are warned against accidentally comparing a stock with a flow, but in this instance, the deliberate scaling of wealth in terms of income is useful in two ways. First, it aids an intuitive grasp of international comparisons of wealth dynamics. Second, it brings out an important two-way relation—that is, of wealth as the accumulation of the property bought with income, and of the generation of income as depending on the level of (productive) wealth.

The "major findings" for the advanced economies that Piketty covers are of a resurgence in wealth concentration since the 1980s, following a long period of decline in the wake of the first world war (Piketty, 2014, p. 20), which he thinks could destabilise liberal democratic capitalism. He proposes two main explanations for this trend. The "fundamental force of divergence", he suggests, is "the accumulation and concentration of wealth when growth is weak and the return of capital is high" (Piketty, 2014, p. 23). This relation is summarised in a simple equation, $r > g$, which is shorthand for saying that returns to capital (r) tend to grow faster than the economy overall (g). A second key mechanism behind the rise in wealth inequality in recent decades, Piketty suggests, is an increase in income inequality linked to the growing power of corporate executives to set their own pay (Piketty, 2014, p. 24).

Piketty addresses a significant omission in modern mainstream economics—the study of changing patterns of wealth distribution over the long term, and their possible social and political impact—while developing a detailed, followable and checkable empirical method to do so.

At the same time, a number of criticisms present themselves. “To simplify the text,” Piketty writes, “I use the words ‘capital’ and ‘wealth’ interchangeably” (2014, p. 47). This could be problematic in at least two ways. First, at the level of accounting categorisation, it may lead to misattribution of the main sources of wealth concentration, and so misdiagnosis of the causes behind it. Joseph Stiglitz argues, for example, that a large part of the increase in wealth that Piketty observes is down to rising land values, rather than to returns of productive capital (Parramore, 2015). Second, at the level of theory, wealth held is not distinguished from wealth in use. This is an especially crucial distinction in Marx’s political economy of capitalism, through which he aims to connect quantitative economic change (wealth continually enhanced by returns on investment deployed) to its qualitative social dimension, which is a reinforcement of the socio-economic power of the owners of capital relative to the workforce. In this sense, he considers capital not as a thing, but as wealth in motion, as wealth able to expand in the process of production by way of exploitative ownership relations between social classes, realised in the process of exchange (Marx, 1976, pp. 1,005-1,006; Mohun, 1985, p. 60).

Belying the strength of the ire directed against Piketty by some of his critics, then, in this it can be seen that Piketty, at least in this book, is no would-be tearer down of the established economic order. Rather, his use of pre-existing concepts and categories of conventional national accounting and neo-classical economics shows that his approach and analysis remain firmly bounded within the framework of a long-established economic world view. In some ways, his intervention more recalls that of John Maynard Keynes in the global crisis of the 1930s than of Karl Marx in the 1850s, and should perhaps best be seen as a call for renewal and protection of liberal democratic capitalism through raising awareness of trends in economic inequality that that have the potential to undermine it from within.

III. Which wealth data to use?

i) The annual Focus ranking of business wealth: the 100 richest people in Ukraine

Focus methodology and my "Focus-100" data set

For Ukraine, the ratings data produced by Focus, a local Russian-language online news magazine, offers the most comprehensive available picture of the level and evolution of wealth at the top end of the ownership scale for the contemporary period.

Each year, the magazine compiles from open sources a ranking of the individuals with the largest holdings of domestic business assets. The Focus rankings measure the market value of an individuals' business enterprises and commercial property, as well as the net cash-flow from any sales or purchases of these assets over a set period. Focus says that it uses only publicly available sources to arrive at its estimates of individual net worth. This includes information from the stock exchange, the government, the courts, companies, press reports and the statements of business owners. It supplements these with research by its own staff, as well as the input of "expert" consultants (Focus Ratings, 2007). For publicly traded firms, the means of valuation is by market capitalisation, based on the average value of the stock over the year. For private firms, the value is calculated according to an assessment of the "fair value" of the company—that is, by reference to the market price of publicly traded east European firms showing a comparable financial performance. This is similar to the methodology used by Forbes, a US business magazine. However, there are differences. According to Marcus and Charnysh in an appendix to their 2017 paper, Forbes includes the value of personal wealth in its calculation, but Focus excludes it. Personal wealth covers such items as residential property, cars, works of art, boats and personal savings. For some valuable assets, the complexity of business structures deployed can prevent the inclusion in Focus' calculations of the debts of some large enterprises (Focus Ratings, 2008). In the sporadically appearing write-ups of the individuals on the rich list, besides assessing the changing levels of business wealth and the factors behind this, Focus also supplies information on the main businesses and business sectors of the richest Ukrainians, frequently mentioning their political and business connections.

Starting in 2006, the Focus "richest Ukrainians" ranking currently runs up until 2017. The data collected for each year is published in the first half of the following year, so that the first wealth ranking, for 2006, came out in March 2007 (Focus Ratings, 2007), and the one for 2017, in April 2018 (Focus Ratings, 2018). Conveniently, therefore, it covers the main 2010-17 timeframe of this study.

For the current investigation, I collated the Focus annual holdings of domestic business wealth for the richest 100 individuals into a full series for 2006-17, from which it is possible to sum annual totals. These are set out in Table 4.1 below, but are described later on. Although in some years there are data for more than 100 individuals, I have restricted myself to the top 100, both in order to produce annual data sets of comparable size and to keep the task of data compilation manageable. As far as I know, at the time it was gathered (2019), this was the most complete and up-to-date version of this data available. It will be central to the overall analysis of the chapter.

Table 4.1: Focus-100: Total domestic business wealth of the 100 richest people in Ukraine, 2006-17

(US$ bn)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Business wealth	71.0	101.4	31.6	45.9	86.9	79.5	77.8	69.0	37.0	23.8	24.1	27.0

Source: Focus.ua. The Focus Ratings archive for 2006-17 data (published the following year) is available at: https://focus.ua/rating/archive. [Accessed September 27th 2019.]

Note: For each year of the ratings, the relevant web page on wealth is usually titled "samikh bahatshykh lyudey Ukrayiny", "Ukraine's richest people".

Pros and cons of the Focus business wealth rankings

The Focus series is, it proclaims in its inaugural edition, both the first large-scale and the most comprehensive wealth ranking conducted for Ukraine (Focus Ratings, 2007). It sets out a clear and defensible method for the direct calculation of business wealth from local sources. However, some aspects of the methodology used are problematic. The most important of these are as follows.

- Based on business assets held in Ukraine, the Focus ranking includes a number of non-Ukrainians who have accumulated the bulk of their wealth in the country (such as Vadym Novynskyi, who is from Russia), but excludes some wealthy Ukrainians who hold significant assets abroad, such as Boris Fuksmans (Focus Ratings, 2009).

- The general lack of transparency in Ukraine's business environment, the magazine recognises, creates notable absences from, as well as distortions in, its rich lists. These absences arise when the asset ownership of certain high-profile business figures, widely assumed to be rich, cannot be verified from publicly available materials. The distortions arise because secretive business practices mean that only a portion of the assets of some business figures may be included on the list. The example given in the write-up for the 2007 ranking is that of Privat Group, which is controlled by Ihor Kolomoyskyi and his business partner Hennadiy Boholyubov. According to the write-up, experts assessed the assets of Privat Group to be "at least US$13bn", but were unable to link these to the main owners of the holding company because of complex property structures (Focus Ratings, 2008). More recent evidence provided by Kolomoyskyi himself, following his return to Ukraine from self-imposed exile, supports this supposition. In an interview with *Novoye Vremya*, until recently a Russian-language Ukrainian weekly, he claimed to have assets of US$7.5bn-8bn, at a conservative estimate (Berdinskikh, 2019a). In contrast, according to the Focus-100 wealth ranking, the domestic business assets of both Kolomoyskyi and Boholyubov averaged about US$3bn each per year in 2006-17.
- Conversely, Focus suggests that the regular appearance of Rinat Akhmetov in first place in its wealth rankings may reflect an earlier decision to run his holding company, System Capital Management (SCM), along more transparent, Western-style lines (Focus Ratings, 2008). The suggestion is that, in contrast to the case of Kolomoyskyi, a larger proportion of Akhmetov's business assets are "out on show", implying that, although he may still qualify as the richest person in Ukraine, it might not be by as much as it appears on the rich lists of Focus and Forbes.
- Since its first publication, the Focus wealth ranking has undergone periodic and inconsistent tweaks to its methodology. One example is the

inconsistent treatment of sibling or husband-and-wife business partnerships, with the individuals sometimes counted separately and sometimes as a single unit. A second inconsistency relates to the treatment of business debt. For the 2009 ranking, the magazine announced that business debts had been included into its wealth calculations for the first time (Focus Ratings, 2010), but in the 2010 ranking, reported that this decision had been reversed (Focus Ratings, 2011). This suggests that the 2009 “richest 100” total, of US$46bn, is lower than would otherwise have been the case and is not strictly comparable with the totals for other years.

- Finally, in the most recent two or three years of the Focus ranking, corresponding to a period of traumatic political, economic and military events, some individuals have been assigned US dollar levels of domestic business wealth that do not seem to change much from one year to the next, despite the tumultuous circumstances. For example, the wealth of Mykola Yankovskyi, whose main assets are in the east Ukrainian chemicals sector, are recorded at US$240m for 2015, 2016 and 2017 (Focus Ratings, 2016, 2017, 2018).

Together, these shortcomings raise concerns about the internal consistency and comparability of the Focus wealth estimates across years. Nevertheless, the Focus rankings are still the best and longest-running source of information available on the wealth of the super-rich in contemporary Ukraine, and of the subgroup of them, the Ukrainian oligarchs, on which my research focuses. At a more theoretical level, it could be argued, the difficulty of converting commercial assets, which include business premises and factories, quickly into cash could raise concerns about how effectively the Focus measure of wealth is able to operationalise the concept of material power as potential political power. While no indicator is likely to perform this job perfectly, the value of domestic business assets can, on the one hand, be seen as a measure of accumulation, or the end result of past business or political economic effectiveness; on the other hand, the concept of market value implies that a market exists on which the assets could be sold, even if this might not take place in short order.

ii) Some recent estimates of Ukraine's national wealth: different methodologies produce different results

To assess changes in the material resource power of the very rich in relation to Ukrainian society—and so too of the politically active subset of oligarchs among them—a measure of the wealth of society as a whole is needed, permitting the comparison of one stock (the Focus-100 domestic business wealth, summarised in Table 4.1 above) to another (the wealth of the country). To aid international comparison, a measure of national wealth that is also compatible with the procedures and categories of national accounting is also desirable. The most recent international version, which I use here, is the System of National Accounts 2008 (SNA 2008), produced jointly by several leading international organisations, such as the UN, the IMF and the World Bank.

There are a number of ongoing, large-scale projects to estimate national and global wealth. Three of the most high-profile of them have culminated in the following recent publications:

- *The Changing Wealth of Nations 2018* (Lange et al, 2018), from the World Bank, an international financial institution (IFI) focusing on economic development;
- *Global Wealth Report 2018* (Shorrocks et al, 2018a), published by the Credit Suisse Research Institute, the "in-house think-tank" of the Swiss bank of the same name; and
- the *World Inequality Report 2018* (Alvaredo et al, 2018), produced by the World Inequality Lab (WIL), a group of academic researchers associated with Thomas Piketty.

Each report comes with its own data set. The first and third of these are interactive, while the second is published as a separate downloadable volume, the *Global Wealth Databook 2018* (Shorrocks et al, 2018b). However, as each report has been produced for a different purpose, using somewhat different wealth-accounting methods, their results diverge and are not directly comparable. It is important to be clear, therefore, about what is included and excluded from each of the measures of wealth.

The Changing Wealth of Nations

Of the three reports, *The Changing Wealth of Nations 2018* (CWN) provides the most comprehensive assessment, offering a measure of national and global wealth that takes in the widest range of asset categories (human, financial, produced and natural capital) across all economic sectors (households, corporations, government, and "other").

In 2014, the most recent year for which estimates are produced, the World Bank reports global wealth at US$1,143trn (Lange et al, 2018, p. 8). As a way of scaling this, in the same year global GDP was US$79.3trn (World Bank Data Bank). In this year, according to the "country tool" that accompanies the CWN report, Ukraine's total wealth was US$2.54trn, while Russia's was almost 11 times larger, at US$27.14trn (World Bank, 2018, Country Tool). These figures correspond to 0.2% and 2.4% of global wealth, respectively.

The World Bank's measure of national wealth is widest because, for the first time, it includes estimates for the value of "human capital", comprised of the skills, knowledge and know-how of the labour force. On this reckoning, based on the discounted present value of expected future labour earnings, human capital comprised almost two-thirds of global wealth in 2014 (Lange et al, 2018, p. 8). The other approaches to wealth estimation discussed below exclude this category, as does Piketty explicitly (Piketty, 2014, p. 46). This explains why their wealth estimates are so much smaller (see Table 4.7 below).

Alongside the more conventional assessment of the value of produced non-financial assets (which includes machinery, buildings and urban land) and of financial assets (such as bank deposits and securities) for 141 of the world's economies, CWN makes separate estimates for natural resource wealth (covering energy deposits and agricultural land, for example). As with the evaluation of human capital, the worth of a country's natural resources is calculated using the net present value (NPV) of the estimated lifetime rent. Here, "rent" means the difference between the cost of extracting a resource and its market price when sold (Lange et al, 2018, p. 22). This special focus on estimating natural resource value separately reflects one of the central purposes of the study, which is to promote environmentally sustainable economic development.

Although the World Bank's wealth estimates stretch back to 1995, however, they do not make up a continuous annual series. On the one hand, the World Bank's (mostly) five-yearly estimates, calculated in constant 2014 US dollars, are useful for gauging real changes in wealth at set intervals. On this data, for example, by 2014 the real stock of Russia's national wealth had grown by 2.4% since 2010, compared with 7% for the UK and the US. The volume of Ukraine's wealth, by contrast, fell by almost 10% over the same period (World Bank, 2018, Country Tool). On the other hand, a key goal of this chapter is to compare the annual stock of business wealth to an estimated stock of Ukraine's societal wealth for each of the 12 years for which data for the Focus rich list exists, in order to track its evolution in detail.

Global Wealth Report 2018

The two Credit Suisse documents—a report outlining key findings, and booklet of methods, sources and data—comprise an extensive study of the levels and distribution of household wealth across the world, which the bank has produced annually since 2000. Household wealth is defined as "the marketable value of financial assets plus non-financial assets (principally housing and land) less debts" (Shorrocks et al, 2018b, p. 4).

The core method of wealth estimation is based on data of household balance sheets for the relatively small number of countries (49) that produce them. Household wealth distributions are adjusted, the authors report, by reference to Forbes' *World's Billionaires List* to take account of problems of underreporting at the top end of the wealth spectrum. For countries with no direct wealth data, estimates are made by imputation, according to a country's region and income group. This is the approach that the report's authors adopt for Ukraine. For Russia, a survey of financial wealth, but not property wealth, is available. The quality of Ukraine's own wealth data is assessed as "poor" (Shorrocks et al, 2018b, p. 22), the second-to-lowest mark on a five-grade scale for those countries with data. "Regression" is listed as the method of estimation (Shorrocks et al, 2018b, p. 33), but with no further details. For Ukraine, much of the variation in Credit Suisse's wealth estimates across time—from close to US$160bn in the years leading up to 2013, to half that or lower afterwards—appears linked to the researchers' decision to use current market exchange rates to convert household wealth into US dollars, rather than the purchasing power parity (PPP) rates more usually used for international comparisons. That is, the steep drop in the estimated US dollar value of Ukrainian household wealth seems to be triggered mainly by the fall of the value of the Ukrainian hryvnya to the US currency amid the multiple crises of 2014-15. The authors justify their approach as follows: "in all countries a large share of wealth is owned by households in the top few percentiles of the distribution, who tend to be internationally mobile and to move their assets across borders with significant frequency" (Shorrocks et al, 2018b, pp. 4-5). This presumably reflects the underlying business interest of the company producing the report, which is to estimate the amount of wealth potentially available worldwide for its "wealth management" services. However, the line of reasoning does not sit comfortably with the claim, made just further up the report, that residential buildings or land—which are not very easily movable—tend to make up the bulk of household non-financial assets (Shorrocks et al, 2018b, p. 4).

The Credit Suisse study finds that global household wealth grew by US$14trn in the year to mid-2018, reaching US$317trn (Shorrocks et al, 2018b, p. 2). A striking chart representing global household wealth distribution as a pyramid shows that, in mid-2018, the 0.8% of adults worldwide who are US dollar millionaires owned between them almost 45% of all household assets (Shorrocks et al, 2018a, p. 20). In 2014—the year that is used in Table 4.7 below to compare the results of the different wealth estimation methods for Ukraine and Russia—Credit Suisse estimates global household wealth at US$278trn. For Ukraine and Russia, the figures are US$80bn (Shorrocks et al, 2018b, p. 90) and US$2,280bn (Shorrocks et al, 2018b, p. 89), or just 0.03% and 0.82% of the global total, respectively—that is, very much lower, both as national totals and as shares of the global total, than those estimated by the World Bank's approach above.

A key point to make about the Credit Suisse study is that the conception of wealth it aims to measure appears quite restrictive. This point is illustrated in

Table 4.2 below. The descendingly dark grey rows of the table represent the different asset categories that comprise wealth as layers stacked one on top of the other, as with geological strata. This represents the total available economic wealth of society. Who owns it is represented by the vertical columns, which cut down through and divide up the layers. Whereas the World Bank report attempts to estimate the value for all four wealth categories across all economic sectors, the Credit Suisse method appears to cover just the middle two wealth categories (financial and non-financial assets) for one economic sector, households (this portion of the whole is circumscribed on the table by a dashed box-like outline). If this understanding is correct, it means that the estimates produced by Credit Suisse represent only a fraction of total national and global wealth. Alongside the absence of an estimate for human capital, this helps to explain why its estimate for global wealth in 2014, of US$278trn, is so much lower than that produced by the World Bank, of 1,143trn. In Ukraine's case, household wealth is estimated by Credit Suisse at just US$50bn-80bn in 2014-17, producing a ratio to net national income for the period (calculated from local currency data at average annual exchange rates) of just 50-70%, which is very low. For the purposes of my investigation, then, the Credit Suisse data are problematic, since they do not appear to represent estimates of national wealth across the economy as a whole.

Table 4.2: Categories of national wealth by economic sector

	Vertical sections: economic sectors			
Horizontal layers: wealth categories	**Households**	**Corporations**	**Government**	**Other: non-profit, non-government**
Human capital				
Net financial assets	Household financial assets	Financial assets of the business sector	Government's net financial assets	
Physical, non-financial, productive assets: fixed capital	Household non-financial assets	Productive assets of firms	Physical assets of the state	
Natural resources		Commercially owned natural resources	Publicly owned natural resources	

Sources: European Commission, IMF, OECD, UN & World Bank. (2009). System of National Accounts 2008 (SNA 2008). United Nations. New York. Available: https://bit.ly/3rTsIoW. [Accessed August 5th 2021.]

Note: The table is based on an SNA "accumulation accounts" for financial and non-financial assests (for example, Table 16.5, p. 338), but has been greatly simplified and adpated by the author.

World Inequality Report 2018

Perhaps the most promising of the three wealth-assessment reports I examined is the World Inequality Report 2018 (WIR), and the World Inequality Database

(WID) that goes with it, both building upon Piketty's earlier work. In contrast to the Credit Suisse approach, the WID estimates of national wealth make use of the same two middle wealth categories in Table 4.2 above, of physical and financial capital, but for all economic sectors. This is why their estimates of national wealth are bigger than those of Credit Suisse but smaller than the World Bank's.

Whereas the explicit theme of the World Bank study is environmentally sustainable development, and the implicit one of Credit Suisse is an estimation of the global market for wealth-management services, the intention of the WIR authors is to contribute to informed public debate about rising global economic inequality, aiming to reconcile data on inequality with macroeconomics statistics in a way that is easily understood (Alvaredo et al, 2018, p. 26). With the objective of producing a reliable and comparable picture of national wealth across countries over the long term, they argue for the adjustment of household income survey data using information from tax records, national accounts and wealth rankings (Alvaredo et al, 2018, p. 26).

Like Piketty, the WIR presents its findings on the evolution of net national wealth—defined as the sum of private and public wealth, once debts have been accounted for—as a multiple of national income. As well as expanding the country coverage, the WIR also brings up to date key findings of Piketty's earlier book. In particular, the report notes, the share of wealth held by the top 1% across Europe, the US and China rose from 28% of the total in 1990 to 33% in 2015 (Alvaredo et al, 2018, p. 19). In broad terms, they put this rise in wealth inequality down to the "very large transfers of public to private wealth" (Alvaredo et al, 2018, p. 14)—that is, to the spread of privatisation policies worldwide since the 1980s.

Following Piketty, the WIR approach aims for a careful and transparent assessment of national wealth that attempts to reconcile information from multiple sources, while its methodological framework permits comparison across countries. In a separate paper on the development of private property in Russia since the fall of communism (Novokmet et al, 2017), the WIR team has produced a detailed series of wealth-income estimates for Russia. However, they have yet to do so for Ukraine.

iii) The national wealth balance sheets of the SSSU and Rosstat

Similarities and differences in the SSSU and Rosstat balance sheets

The above three reports aid understanding of what wealth accounts look like and how wealth estimates are produced, but they do not provide a ready-made, internationally comparable series of national wealth for Ukraine, against which to scale domestic business wealth. For this, we must turn to the "experimental" balance sheets produced since 2011 by the State Statistical Service of Ukraine (SSSU) as part of the country's national accounts.

The SSSU wealth balance sheets now run from 2009 to 2017 (SSSU, 2019a, 2019b). Because the end-2008 data form the "initial balance" for the 2009 balance sheets, we are able to add a figure for the stock of national wealth in 2008, so extending the series by one year. Using modern national accounting conventions, the balance sheets between them quantify the value of Ukraine's produced non-financial assets, as well as financial assets, minus financial debt, across the Ukrainian economy. The national wealth series for Russia, from the State Federal Statistics Service (Rosstat), are similarly laid out, but proved hard to find for the period before 2011. Both, then, are most akin to the WIR in approach, but different from that of the World Bank, which estimates separate values for human and natural capital also. That is, in these national wealth accounts, there is no separate assessment of the value of natural capital, which, according to SNA 2008 methodology can be grouped, along with produced physical assets, under the single category of "non-financial assets", as produced and non-produced non-financial capital (European Commission, IMF, OECD, UN and World Bank, 2009). In practice, however, estimates of "non-produced" non-financial wealth do not appear to be included in the balance sheets of either the Ukrainian or the Russian statistics agencies. On this, Svitlana Shumska seems to concur, writing that the "disadvantages of the methodology of calculating the national wealth of Ukraine in the framework of indicators of the SNA are an underestimation of natural capital and the absence of estimates of human capital" (Shumska, 2012, p. 38). Finally, in a footnote to its balance sheets on non-financial assets, the SSSU (but not Rosstat) explicitly excludes the domestic residential housing stock, on the grounds of insufficient information on prices and quality, while the housing stock typically comprises a significant proportion of national and especially household wealth.

How to read the SSSU's balance sheets

Taking the SSSU's two sets of balance sheets for 2014 as an example, the first, presented on Table 4.3 below, shows that, at the end of 2013, Ukraine's produced non-financial assets (excluding housing) were valued at UAH4,714bn (US$589.7bn at the end-2013 average market exchange rate). Owing to a small fall in the capital stock of just over UAH3bn, alongside a rise in "other changes in assets" of almost UAH24bn, by the end of 2014 this stock had climbed modestly to UAH4,734bn. During the intervening year, however, amid a deepening financial crisis, the Ukrainian hryvnya had depreciated steeply, from an average of UAH8:US$1 in December 2013 to US$15.6:US$1 a year later (National Bank of Ukraine online database, Daily official exchange rates), a nominal drop of close to 50%. As a result, the US dollar value of Ukraine's fixed capital assets fell to US$303bn.

Table 4.3: Ukraine's "experimental" balance sheet of non-financial assets (excl housing), 2014

(UAH bn)		Of which:		
	Produced non-financial assets	**Fixed assets**	**Intangible assets**	**Inventories**
Initial balance	**4,713.5**	**4,122.4**	**39.1**	**552.0**
Capital account	-3.2	11.3	-2.5	-12.1
Other changes in assets	23.8	-152.9	3.5	173.2
Final balance	**4,734.0**	**3,980.7**	**40.1**	**713.2**

Sources: State Statistical Service of Ukraine (SSSU; 2019a). Experimental balance of non-financial assets in 2017 and archive. Available: https://bit.ly/3ltmrz0. [Accessed September 19th 2019.]

According to SNA 2008 methodology, capital accumulation encompasses capital transfers plus new investment and changes in stocks (so that a decline could indicate disinvestment, a run down in inventory, or a combination of both), while "other changes in assets" account for variations in asset prices (revaluation) and in asset volumes not linked to economic transactions (because of a natural disaster or a war, for example). Underlying this rather benign picture, all the "action" is on this third line of accounts for fixed assets and inventories, showing a marked drop in the former, of UAH153bn (presumably reflecting an assessment of the destruction and loss of physical assets owing to the onset of war), masked by a sharper rise still in the value of unsold stocks, of more than UAH170bn (perhaps linked to price developments on world markets).

Similarly, Table 4.4 shows that, at the end of 2013, although the combined value of all of Ukraine's financial assets came to UAH7,396bn (US$925bn), liabilities were larger by almost UAH600bn (US$74bn), mainly reflecting the larger volume of investment and loan liabilities over investment and loan assets. By the end of 2014, however, the shortfall on net financial assets had widened by more than UAH1,000bn, mainly owing to a sharp rise in the "other changes" liabilities column, which may reflect revaluation effects.

Table 4.4: Ukraine's "experimental" balance sheet of financial assets and liabilities, 2014

(UAH bn)	Assets	Liabilities
Beginning of period	**7,395.6**	**7,989.4**
Monetary gold & SDRs	13.2	
Currency & deposits	1,822.9	1,019.6
Securities other than shares	592.2	736.9
Loans	1,083.9	1,595.8
Shares & other equity	966.3	1,538.4
Insurance technical reserves	21.8	21.7
Financial derivatives & employee stock options	2.2	1.2
Other accounts receivable/payable	2,893.1	3,075.8
Financial net worth at the beginning of the period		**-593.8**
Financial account	691.9	741.8
Other changes in financial assets & liabilities account	1,240.2	1,606.2
End of period	**9,327.7**	**10,337.3**
Financial net worth, end of period		**-1,009.6**

State Statistical Service of Ukraine (SSSU; 2019b). Experimental balance sheets of financial assets and liabilities in 2017 and archive. Available: https://bit.ly/3rQGrN6. [Accessed September 19th 2019.]

Subtracting this from the 2014 year-end total for produced non-financial assets generates an estimate of national wealth (minus housing) of UAH3,724bn (down from UAH4,120bn a year earlier). At the average official market exchange rate to the US dollar for December 2017, this was equal to US$238.5bn, a sharp drop from US$515.4bn at the end of 2013.

iv) Estimating Ukraine's housing stock

The absence of housing stock in the SSSU's calculations makes it difficult to compare its measure of Ukraine's national wealth with those of Rosstat for Russia. To address this, an estimate for the value of Ukraine's housing stock in required. On the one hand, the SSSU does produce data for the volume of the housing stock. However, the Ukrainian statistics office only began to produce an index of the changes in house prices nationwide from 2016. I have turned, therefore, to Credit Suisse’s wealth series for assistance. In particular, to the SSSU’s national wealth calculations, I have added 80% of Credit Suisse’s estimates for Ukraine’s household wealth for 2008-17. My rationale is as follows. In its methodology, Credit Suisse, as we have seen, measures household wealth, composed by adding the value of household financial and non-financial assets, while subtracting financial debts. In the *Global Wealth Databook 2018* (GWD; Shorrocks et al, 2018b), US dollars sums per adult are estimated for each of these, so permitting the calculation of the average annual share of each in total household wealth. In more advanced economies, according to Credit Suisse data, the non-financial component—the bulk of which was housing—is equal to 50-60% of overall household wealth in 2000-18 (Shorrocks et al, 2018b, Table 6.4, p. 156). Although the figure for Ukraine varies between years, it averages 86% of household wealth in 2008-17 (this is shown in the final column of the second to last line of Table 4.5 below).

Table 4.5: Ukraine: The share of non-financial assets in household wealth, 2008-17

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Average, 2008-17
Household wealth per adult (US$)	3,964	2,967	3,522	4,319	4,335	4,277	794	1,590	1,407	755	2,793
of which: non-financial	3,256	2,437	2,893	4,150	4,369	4,442	410	1,675	1,550	353	2,554
as a share of all household wealth (%)	**82.1**	**82.1**	**82.1**	**96.1**	**100.8**	**103.9**	**51.6**	**105.3**	**110.2**	**46.8**	**86.1**
Total household wealth (US$ bn)	145	109	129	158	158	155	80	57	50	52	109
Total value of non-financial assets (US$ bn)	**119**	**90**	**106**	**152**	**159**	**161**	**41**	**60**	**55**	**24**	**97**

Source: Shorrocks et al, 2018b; Table 2.4, pp. 66-102 & Table 6.4, p. 156.

On the assumption that most, but not all, of the non-financial component of household wealth is accounted for by housing, I arrive at the figure of 80%. In 2014, this values Ukraine’s housing stock at US$64bn (shown in the third row of Table 4.6 below). Added to the SSSU’s national wealth estimate for the year, of about US$238.5bn, this produces a working estimate for Ukraine’s stock of wealth in that year of just over US$300bn. Following this procedure for other years, it is possible to produce a series of “full” estimates of Ukraine’s national wealth (the first emboldened row in the table below) that is comparable with the Rosstat series for Russia (the lower emboldened line), in billions of current US dollars.

Table 4.6: National wealth estimates for Ukraine & Russia from national accounts, 2008-17

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
National wealth of Ukraine, minus housing stock (US$bn; SSSU; Dec exchange rates)	391.5	339.4	385.2	444.8	520.3	515.4	238.5	216.1	213.7	247.3
Household wealth of Ukraine (US$ bn; Credit Suisse)	145.0	109.0	129.0	158.0	158.0	155.0	80.0	57.0	50.0	52.0
80% of household wealth of Ukraine (Credit Suisse), assumed as missing value for Ukraine's residential housing	116.0	87.2	103.2	126.4	126.4	124.0	64.0	45.6	40.0	41.6
Ukraine: SSSU national wealth + 80% of Credit Suisse household wealth										
UAH bn	3,839.3	3,403.4	3,885.7	4,563.7	5,169.5	5,110.8	4,723.9	6,141.8	6,654.5	7,959.7
US$ bn (Dec exchange rates)	**507.5**	**426.6**	**488.4**	**571.2**	**646.7**	**639.4**	**302.5**	**261.7**	**253.7**	**288.9**
National wealth of Russia (Rosstat)										
Rb bn	n/a	n/a	n/a	228,902	260,585	280,273	320,245	364,656	374,901	426,697
US$ bn (Dec exchange rates)	**n/a**	**n/a**	**n/a**	**7,268.8**	**8,477.8**	**8,523.9**	**5,742.2**	**5,231.4**	**6,037.9**	**7,538.8**

Sources: Shorrocks et al (2018b), Table 2.4, pp. 66-102. State Statistical Service of Ukraine (SSSU; 2019a), experimental balance of non-financial assets in 2017 and archive. Available: https://bit.ly/3ltmrz0. [Accessed September 19th 2019.]; (SSSU; 2019b), experimental balance sheets of financial assets and liabilities in 2017 and archive. Available: https://bit.ly/3rQGrN6. [Accessed September 19th 2019.] State Federal Statistics Service/ Rosstat. (2020). *Statistical Yearbook 2020* . Table 13.23, p. 284. Available: https://bit.ly/2TZ8sWo. [Accessed August 5th 2020.]

It can be seen from this that an exchange-rate effect kicks in from 2014, strongly for Ukraine and more mildly for Russia from 2014, when both countries experienced considerable bouts of exchange-rate fluctuation—although, as indicated above, Ukraine's national wealth also fell in hryvnya terms.

v) Comparison of wealth estimates for Ukraine and Russia in 2014

All of the estimates for the national wealth of Ukraine and Russia in 2014 from the different approaches analysed above are brought together in Table 4.7 below. The reason that 2014 was chosen as the year for comparison was because it is the most recent one for which the World Bank study produces an estimate; also, since the World Bank's estimates are in constant 2014 US dollars, it is the only year to which the other estimates, measured in current prices and at current market exchange rates, can be meaningfully compared without further treatment.

To recap, the WID team, as well as the statistical agencies of Ukraine and Russia, all produce estimates of national wealth using the categories of produced physical assets and net financial assets across economic sectors. These are quite restricted compared with the World Bank's wide measure. By excluding natural and human capital from the World Bank's calculations, however, we can arrive at estimates more comparable with these (the second line under the "World Bank" heading in the table). Nevertheless, the variations in the values of national wealth produced by the different methods remain quite wide. The range of national wealth estimates for Russia in 2014 is between US$5.7trn (Rosstat) and US$7.3trn (World Bank), with that of the WID placed between them, at US$6.2trn. As the Credit Suisse approach uses the same two wealth categories, but only for households, its estimate is correspondingly smaller, at US$2.3trn.

Table 4.7: Comparison of national wealth estimates for Ukraine & Russia, 2014
(US$ bn, unless otherwise indicated)

				Share of global wealth		
	Ukraine	**Russia**	**World**	**Ukraine**	**Russia**	**Russia's national wealth vs Ukraine's**
World Bank (US$ bn, constant 2014 dollars)						
Total wealth (human, natural, produced & net financial capital)	2,538	27,141	1,143,249	0.22	2.37	11
Total wealth, excl human & natural capital	1,075	7,332	298,967	0.36	2.45	7
Credit Suisse (US$ bn, official exchange rate)						
Household wealth	80	2,278	277,938	0.03	0.82	28
World Inequality Database (US$ bn)						
Net national wealth	n/a	6,200	n/a	n/a	n/a	n/a
State Statistical Service of Ukraine (SSSU; US$ bn, Dec market exchange rate)						
National wealth (net financial + non-financial assests, excl housing)	238	n/a	n/a	n/a	n/a	n/a
National wealth (net financial + non-financial assests, incl 80% of Credit Suisse total as "housing")	302	n/a	n/a	n/a	n/a	n/a
Russian Federal State Statistical Service (RFSSS; ; US$ bn at av Dec ex rates)						
National wealth (net financial + non-financial assests)	n/a	5,742	n/a	n/a	n/a	19

Source: World Bank (2018). The Changing Wealth of Nations 2018: Country Tool. Available from: https://bit.ly/3jzLEp5. [Accessed September 18th 2019]: second tab, Data & Resources. Shorrocks et al (2018b), Table 2.4, pp. 89-90. World Inequality Lab. World Inequality Database (WID). Available: https://wid.world/data [Accessed August 5th 2021]. State Statistical Service of Ukraine (SSSU; 2019a), experimental balance of non-financial assets in 2017 and archive. Available: https://bit.ly/3ltmrz0. [Accessed September 19th 2019.]; (SSSU; 2019b), experimental balance sheets of financial assets and liabilities in 2017 and archive. Available: https://bit.ly/3rQGrN6. [Accessed September 19th 2019.] Russian Federal State Statistics Service/ Rosstat. (2020). *Statistical Yearbook 2020* . Table 13.23, p. 284. Available: https://bit.ly/2TZ8sWo. [Accessed August 5th 2020.]

For Ukraine, in contrast, while my "augmented" estimate of around US$300bn in 2014 is much larger than that of Credit Suisse, it is less than one-third of the produced and net financial capital estimate of the World Bank, of US$1.1trn.

Looking, however, at my "synthetic" estimate for Ukrainian national wealth in 2008-17 in relation to the SSSU's estimates for net national income (NNI) over the same period, to produce a Piketty-style wealth-income ratio, these are in 400-450% range for Ukraine before 2014, falling to 300-350% after.

These ratios can be seen as a broad measure of the development of the economic basis upon which the production of future flows of output (and so income) depend. Figure 4.1 below depicts their recent dynamics for Ukraine and Russia.

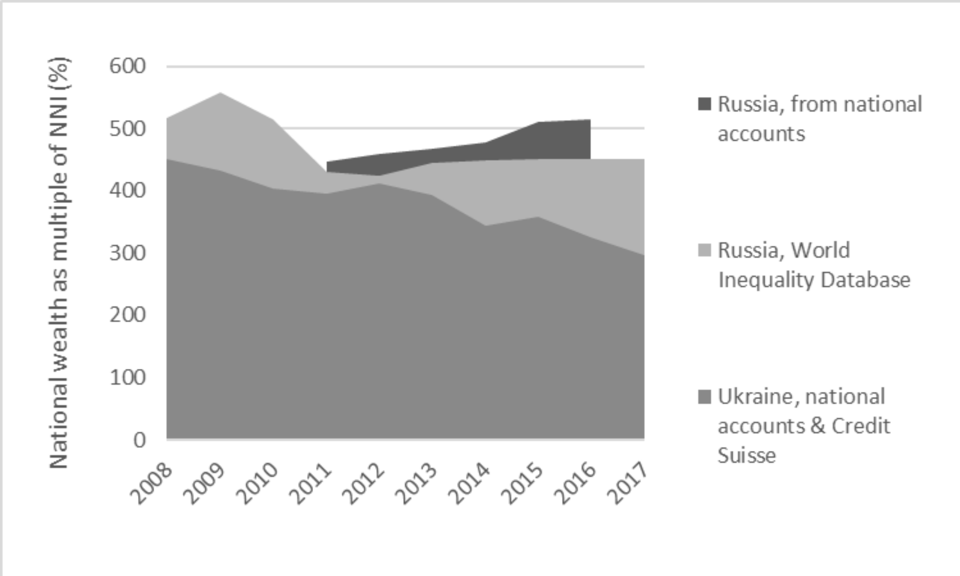


Figure 4.1: Estimated wealth-income ratios for Ukraine & Russia, 2008-17.
Sources: State Statistical Service of Ukraine (SSSU; 2019a), experimental balance of non-financial assets in 2017 and archive. Available: https://bit.ly/3ltmrz0. [Accessed September 19th 2019.]; (2019b), experimental balance sheets of financial assets and liabilities in 2017 and archive. Available: https://bit.ly/3rQGrN6. [Accessed September 19th 2019.] Shorrocks et al (2018b), Table 2.4, pp. 66-102. Russian Federal State Statistics Service/ Rosstat. (2020). *Statistical Yearbook 2020*. Table 13.23, p. 284. Available: https://bit.ly/2TZ8sWo. [Accessed August 5th 2020.] World Inequality Lab. World Inequality Database/ WID. Available: https://wid.world/data. [Accessed August 5th 2021.]

Although Russia's national wealth is 10-30 times larger than Ukraine's (see the final column in Table 4.7 above), Figure 4.1 shows that, before the onset of the Ukraine-Russia war in 2014, Ukraine's wealth-income ratios (represented by the medium grey, downward-sloping area in the foreground) are roughly in line with those for Russia derived from Rosstat data (the darkest grey, upward-sloping block, backgrounded in the chart). In turn, ratios from Rosstat data are more or less in line with the WID estimates for Russia's wealth-income ratio (the light grey block sandwiched between the other two), offering some assurance that the synthetic estimate developed for Ukraine in the chapter is in the right ballpark, since it would make sense for two countries sharing an economic-institutional inheritance from the Soviet era to display similar levels of productivity at the macroeconomic level.

B. The patterns of elite wealth distribution and dynamics in contemporary Ukraine: three analyses

IV. Outline of the wealth analyses

With the necessary data sets collected and prepared, it is possible to proceed with a statistical analysis of the scale and dynamics of the business wealth of the very rich in contemporary Ukraine, and what this says about the evolution of their material resource power relative to Ukrainian society. The three interlinked analyses on wealth have been positioned in this study ahead of my research on Rada voting and energy sector rent schemes of chapters five and six, since wealth as material power is conceived as a conceptual and motivational thread running through the other two investigations. In combination, however, seen one after the other, the ordering of the empirical investigations aims to show a complete sequence of concrete, materially focused political and economic practices through which the Ukrainian oligarchy is reconstituted institutionally.

The first investigates the degree of concentration of Ukraine's wealth in international comparison. It involves a comparison of estimates for the wealth of the richest individuals in Ukraine and Russia in 2013 and in 2017, using Forbes' *The World's Billionaires*. Russia is chosen as the main comparator country because of a shared institutional inheritance from the Soviet era. This is followed by an examination of the distributions of income and wealth in Ukraine and Russia, using the available Gini indicators, and then of the incidence of Forbes' billionaires, relative to population and economic output, against a range of European countries and the US. The second analysis describes and explains the dynamics of the Focus-100 data for 2006-17, first at the overall level, in nominal US dollar terms and in relation to Ukraine's estimated national wealth, and then by examining wealth levels and trends for the typical rich-list member. A third analysis examines the relationship between wealth and longevity on the rich list, and from this draws up a shortlist of the "core rich"— those in the top quartile in terms of both average domestic business wealth and years on the rich list. The most prominent Ukrainian oligarchs dominate this group.

V. Wealth concentration in Ukraine and Russia in international comparison

i) Forbes: the private wealth of Ukrainian and Russian billionaires, 2013 vs 2017

Table 4.8 below shows the change in the combined private wealth of Ukrainian and Russian billionaires on the Forbes' World's Billionaire list between 2013 and 2017. While indicating high levels of wealth concentration in both countries, it shows that the incidence of billionaires is lower in Ukraine than in Russia, and that the wealth of the Ukrainian ultra-rich was worse hit by the economic and geo-political crisis of 2014-15.

In 2013 the combined private wealth of Ukrainian and Russian Forbes' billionaires—of US$32bn and US$427bn, respectively—equalled 5% of each country's estimated national wealth. On average, the Ukrainian billionaires were poorer and younger than their Russian counterparts. Moreover, in Ukraine, the incidence of billionaires was much lower, both in terms of absolute numbers and relative to the size of its population. So, while there were just ten Ukrainian billionaires in 2013, according to Forbes, in Russia, the figure was 110[12]; and while the ratio of Forbes' billionaires per million population was 0.22 for Ukraine, it was considerably higher for Russia, at 0.77, indicating the greater capacity of the Russian economy to generate very rich individuals. This may be connected with the disparity in natural resource (especially energy) endowments between the two economies, as well as with the high rents that can be realised, and relatively easily collected, in the energy sector, by rentier elites.

By 2017 the number of billionaires had fallen in each country. In the interim, of course, there had been a series of dramatic developments, starting with domestic political instability in Ukraine, but extending to a serious geopolitical and military confrontation with Russia and, as a consequence, the imposition of international sanctions on Russia. Around the same time, plummeting global prices for key export commodities, connected in part to fears about growth prospects in China (Noble and Wildau, 2014), undercut both countries' exchange rates, exacerbating existing tendencies towards financial destabilisation, especially in Ukraine. These developments damaged not only incomes, but also asset valuations. However, the reduction in the number of

[12] Eduardo Casais junior and senior keep a full "list of lists" of Forbes' billionaires on their areppim website. Available: https://bit.ly/2XeK841. [Accessed September 27th 2019.]

Russian billionaires, from 110 in 2013 to 96 four years later—a drop of 13%—was less drastic than for their Ukrainian counterparts, whose numbers fell by 40%, from ten to six. Moreover, by 2017 although the wealth of the Russian super-rich had risen modestly, to an average of US$4bn each, from US$3.9bn each in 2013, in Ukraine, average wealth per billionaire fell to US$1.8bn, from US$3.2bn in 2013, a decline of 44%. While the combined wealth of fewer Russian billionaires remained relatively constant as a share of Russia's national wealth, at 5.1%, for the remaining Ukrainian tycoons, it fell to 3.7%.

Table 4.8: Forbes' estimates of the private wealth of Ukrainian & Russian billionaires, 2013 & 2017

	Ukraine		Russia	
	2013	**2017**	**2013**	**2017**
US dollar billionaires (no.)	10	6	110	96
Billionaires' combined wealth (US$ bn)	32.1	10.6	427.1	387.1
Wealth per billionaire (av; US$ bn)	3.2	1.8	3.9	4.0
Billionaires' average age	46.9	50.8	51.4	54.7
Estimated national wealth (US$ bn, Dec exchange rates)	639.4	288.9	8,523.9	7,538.8
Ratio of billionaires' total wealth to national wealth (%)	5.0	3.7	5.0	5.1
Population (World Bank; m)	45.5	44.8	143.5	144.5
Billionaires per million population	0.22	0.13	0.77	0.66

Sources: Forbes. (2008). *Billionaires, 2008* . Available: https://bit.ly/3CRGn3Q. [Accessed December 14th 2018.] Eduardo Casais Jr & Eduardo Casais Sr. The Complete World Billionaire Lists. areppim website. Available: https://bit.ly/2XeK841. [Accessed September 27th 2019]. World Bank DataBank, Health, Nutrition and Population Statistics. Available at: https://bit.ly/3sLfX1G. [Accessed March 6th 2022.] State Statistical Service of Ukraine (SSSU; 2019a), experimental balance of non-financial assets in 2017 and archive. Available: https://bit.ly/3ltmrz0. [Accessed September 19th 2019.]; (2019b), experimental balance sheets of financial assets and liabilities in 2017 and archive. Available: https://bit.ly/3rQGrN6. [Accessed September 19th 2019.] Sources: Shorrocks et al (2018b), Table 2.4, pp. 66-102. Available: https://bit.ly/3775cuU. [Accessed July 28th 2021.] Russian Federal State Statistics Service/ Rosstat. (2020). *Statistical Yearbook 2020.* Table 13.23, p. 284. Available: https://bit.ly/2TZ8sWo. [Accessed August 5th 2020.]

ii) Wealth and income Ginis for Ukraine and Russia in international comparison, 2016-17

Next, some recent wealth and income Ginis for Ukraine and Russia are presented in Figure 4.2 below, alongside those for a selection of European countries and the US. A Gini coefficient is a statistical measure that offers in a single number, graded zero to 100, a way of assessing the degree of dispersion of a distribution—in this case, of how equally a country's income or wealth is divided among its population. A lower number indicates a more even spread; a higher number denotes that income or wealth is more restrictively concentrated. The income Ginis, taken from the World Bank's *World Development Indicators,* are produced from household survey data. Those for household wealth were calculated by Credit Suisse for its *Global Wealth Databook 2017.*

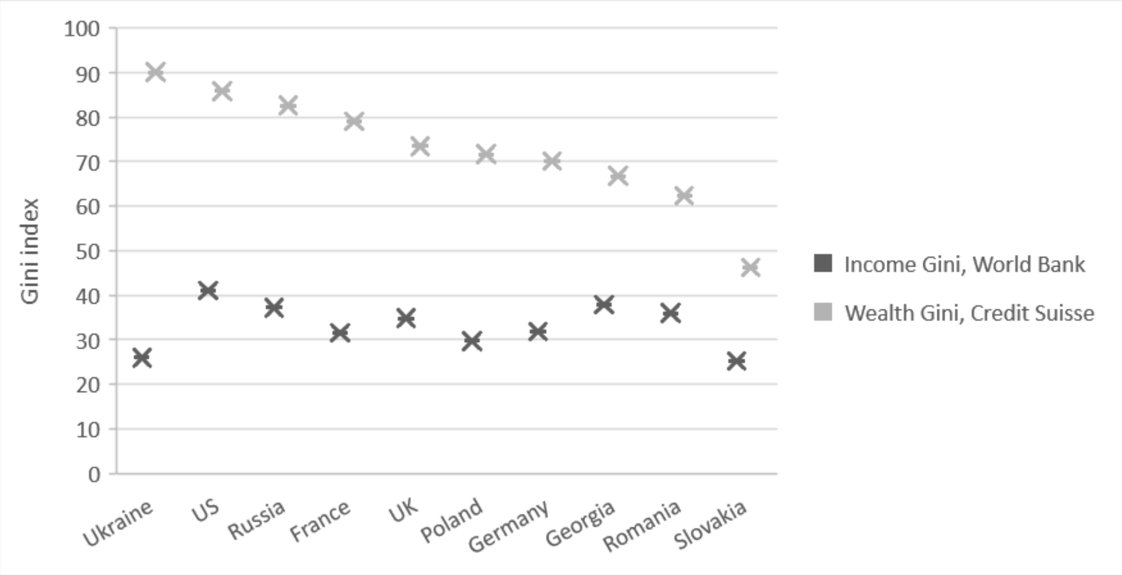


Figure 4.2: Wealth and income Ginis for selected countries, 2016-17. Sources: World Bank DataBank, *World Development Indicators* (for income Ginis). Shorrocks et al. (2017). *Global Wealth Databook 2017*, Credit Suisse (for household wealth Gini). Table 3.1, pp. 211-215.

From the chart, a striking feature of the data presents itself, which is that household wealth is much more socially concentrated than income. This phenomenon is often remarked upon in the economic inequality literature (Stillwell, 2019, p. 19). It is shown in Figure 4.2 above by the size of the vertical gap between the lower, darker crosses, indicating the degree of spread of income distributions within each country, and the higher, light grey crosses, representing their Ginis for the distribution of household wealth. The gap between the two tapers from left to right, as the countries are arranged across the chart by wealth Gini, from high to low. The gap is narrowest for Slovakia, and widest for Ukraine. While Ukraine's income Gini is 26—a relatively even distribution, comparable with those of Slovakia and Poland, the two countries with the most equal income distributions here—its household wealth Gini of 90 suggests that wealth concentration in Ukraine is higher still than for Russia and the US, the two next most concentrated in this group.

The size of the gap in Ukraine's case is puzzling, but may reflect an especially striking example of the broader criticism, mentioned above, that the use of household surveys for collecting income data, upon which the World Bank's Gini calculations are based, can lead to under-reporting of capital and business income (Alvaredo et al, 2018, p. 29). Moreover, a criticism of the Gini index is that it is less sensitive to capturing the lower and higher "tails" of a distribution than its mid-portion, which is a particular problem when distributions are highly skewed (Stilwell, 2019, p. 24), as is likely to be the case for incomes in Ukraine. This line of thinking, however, does not explain why the indicator of income distribution is (more plausibly) so much higher for Russia. Thus, Russia, in common with the US, has unusually high Gini coefficients for both income and wealth (38 and 83, versus 42 and 86, respectively), placing them both among the most highly economically stratified countries in the world. However, this makes more sense than the divergence in Gini indices for Ukraine, as you would expect the owners of substantial income-producing wealth to receive a correspondingly large share of the income produced.

A second feature of the statistics shown in Figure 4.2 is that the range of Gini scores is narrower for income than for wealth, indicating that household wealth distributions between these countries vary more than for income. So, for the income series, the range is between Slovakia, on 25, and the US, on 41, or 16 points on the 100-point scale. Comparing the World Bank's income Ginis with those of the OECD (which do not cover some of the east European countries of interest in this study), it can be deduced that these are for income distributions after tax and transfers, which tends to make the distributions flatter. For the wealth Ginis, however, the range is much wider, from Slovakia on 46 to Ukraine on 90, or 44 points. Ukraine's very high coefficient here implies that, in international comparison, Ukraine's household assets are extremely highly concentrated among an unusually small portion of its population.

iii) Wealth concentration in Ukraine and Russia in international comparison

The picture of Ukraine and Russia as contemporary economies in which wealth is highly concentrated is further supported by examining the number of Forbes' billionaires of each in relation to their economic output and population. For the same selection of countries as above, Table 4.9 below places these indicators alongside their household wealth Ginis.

So, for Russia in 2017, there were 0.66 Forbes' billionaires per million population. Although this was lower than for most of the advanced capitalist democracies referenced here (the US, Germany and the UK), it was well above that of the other east European countries, and higher even than for France, with a ratio of 0.57, a considerably richer country with a larger economy. In the case of Ukraine, although its ratio of 0.13 billionaires per million population is not high in comparison with the other east European countries viewed at here, it is higher than for Poland, which is widely considered, unlike Ukraine, to have been one of the economic success stories of the transition from central planning.

Table 4.9: Wealth concentration in Ukraine & Russia in international comparison, 2017

	Gini, household wealth	Billionaires (no.)	GDP per head (PPP; constant 2017 international US$)	Billionaires per million population
Ukraine	**90.1**	**6**	**11,871**	**0.13**
US	85.9	565	60,062	1.74
Russia	**82.6**	**96**	**26,006**	**0.66**
France	79.1	38	44,755	0.57
UK	73.5	54	45,955	0.82
Poland	71.7	4	30,160	0.11
Germany	70.2	114	53,122	1.38
Georgia	66.8	1	13,590	0.27
Romania	62.3	1	27,231	0.05
Slovakia	46.3	1	30,189	0.18

Sources: Shorrocks et al (2017),Table 3.1, pp. 112-115. Eduardo Casais Jr & Eduardo Casais Sr. The Complete World Billionaire Lists. areppim website. Available: https://bit.ly/2XeK841. [Accessed September 27th 2019]. World Bank DataBank, *World Development Indicators* . Available: https://bit.ly/3l83fF9. [Accessed July 24th 2021.] World Bank DataBank, *Health, Nutrition and Population Statistics.* Available at: https://bit.ly/3sLfX1G. [Accessed March 6th 2022.] Own calculations.

Figure 4.3 below shows that the number of billionaires in Ukraine and Russia is high relative to their GDP per head[13]. The use of a log scale for the vertical axis (the incidence of billionaires) helps to bring out this relation visually, by the distance of Ukraine and Russia above the dotted trend line (the US, too, has more billionaires than you would expect for its income level). Thus, in 2017, Russia, with a GDP per head of US$26,000, had 96 billionaires on the Forbes' list, whereas Romania, with comparable average purchasing power, had just one, and Poland, recording a higher average income, just four. In the same year, Ukraine had the lowest average income of the countries considered here, of less than US$12,000, but still had six billionaires on the Forbes' rich list, compared with just one for Georgia, whose economy was able to generate a higher level of output on average. What is most remarkable, perhaps, is that a

[13] A purchasing power parity (PPP) series from the World Bank is used here to aid the validity of the comparison between countries.

country such as Ukraine, which usually places close to bottom of European income rankings, makes it onto the Forbes' billionaires list at all. That is, in terms of production of very rich individuals, both Ukraine and Russia appear to punch well above their economic weight.

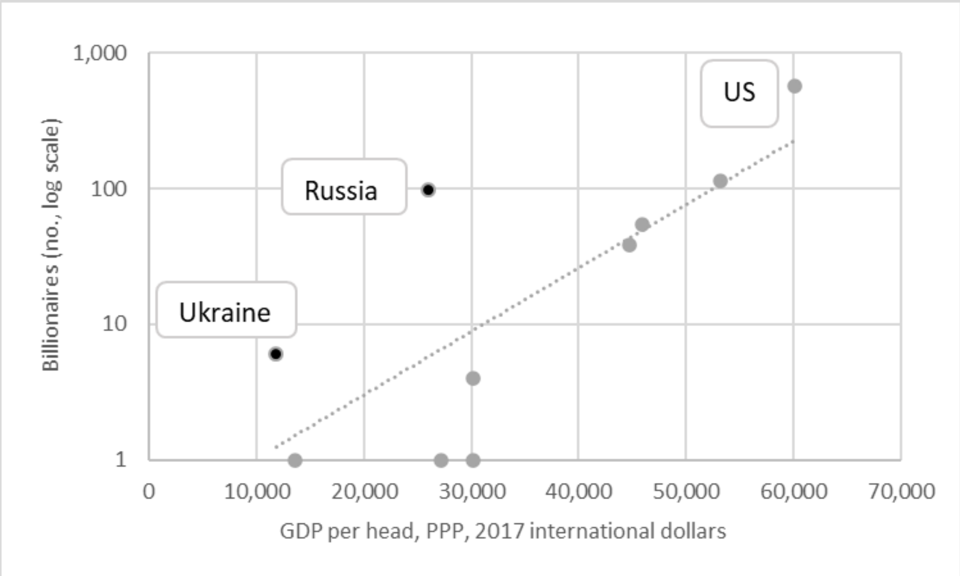


Figure 4.3: Ukraine and Russia: Forbes' billionaires vs per head GDP, 2017. Sources: For Forbes' Lists, Eduardo Casais Jr and Eduardo Casais Sr. The Complete World Billionaire Lists, areppim website. Available: https://bit.ly/2XeK841. [Accessed September 27th 2019]. World Bank DataBank, *World Development Indicators*. Available: https://bit.ly/3l83fF9. [Accessed July 24th 2021.]

iv) Key "takeaways" about wealth concentration in Ukraine and Russia

Placing alongside one another the evidence of the high absolute and relative wealth of the super-rich, the high estimates for household wealth concentration, and the high incidence of billionaires in relation to production and population, it is possible to conclude that, in international comparison, an unusually small number of people in contemporary Ukraine and Russia control an unusually large proportion of each society's income-generating assets. In Ukraine, in contrast to Russia, however, the degree of concentration appears to have fallen between 2013 and 2017 as a result of a severe bout of political, geopolitical and financial instability. On the one hand, this conclusion comes with the caveats already expressed regarding the quality of some of the data concerned. On the other hand, a very high concentration of business wealth indicated by the Focus data—analysed in the next section—supports the picture of extreme economic stratification arrived at here.

<u>v) In Ukraine, privatisation was a key factor behind both wealth concentration and the crystallisation of its post-communist political economy regime</u>

<u>Privatisation was a global policy trend adapted to the interests of post-Soviet elites</u>

How, then, was it that wealth became so highly concentrated in post-communist Ukraine? The most straightforward answer is that it is the result of the large-scale transfer of state property into private hands, or privatisation. Alongside the growth of new businesses, this ensured that, by the early years of the new millennium, the private sector accounted for an estimated 65% of Ukraine's domestic output, up from around 10% in 1991 (Turley and Luke, 2011, p. 83).

On the one hand, privatisation in Ukraine should be seen in the context of a resurgence of free-market ideology internationally from the 1970s, leading by the early 1980s to a swing in the policy "pendulum" away from public ownership, without which privatisation in post-communist eastern Europe is unlikely to have happened, at least not on the scale that it did (Douarin and Mickiewicz, 2017, pp. 177-178). On the other hand, it should not be understood simply as the passive local adoption of a central tenet of a globally ascendant economic ideology, but also as the adaptation by local elites of the formal rhetoric of privatisation for their own informal ends, where this proved possible. Stylising the process of wealth concentration in post-communist Ukraine somewhat, it can be seen as composed of four main interlinked moments.

The first is the original rent accumulation schemes of politically connected insiders of the early 1990s, examined in the previous chapter. This gave the new wealth-holders, the oligarchs who emerged out of regional business-political networks, the material resource power and so political access to skew the privatisation process in their favour. In turn, the increase in wealth from skewed privatisations was one of the factors that helped to crystalise, stabilise and institutionalise the dominant form of relations between emerging big business networks and the state, as a new understanding of the norms of post-communist power. It is this new institutional relation of formal political and informal economic forces, "the oligarchy", which has in its turn licensed the routine proliferation of elite rent-extraction schemes ever since, through which the wealth holdings of elite participants have been continually replenished, but at the expense of public finances (see Table 3.2). In modern Ukraine, therefore, the process of privatisation as wealth concentration and the process of formation of the oligarchy as the dominant political economy regime are inseparable.

<u>Just as privatisation was part of global policy shift, so rising wealth inequality is part of a wider global pattern</u>

Just as privatisation in eastern Europe in the 1990s was in part the outcome of a global shift in the policy consensus, so rising wealth inequality in Ukraine and Russia appears as part of a wider global pattern. For example, in the 20 years from 1995, the share of personal wealth held by the top 1% rose sharply in both Russia and the US, to 43% and 39% of the national total, respectively, according to the *World Inequality Report 2018* (Alvarado et al, 2018, p. 16). Although the direction of movement was the same in each, however, the causes of each were different. In Russia, these researchers find an "extreme case" (p. 174) of the general rise in private wealth linked to the transfer of assets from the public sector—ie privatisation. They show that, while public wealth accounted for three-quarters of Russia's national wealth at the end of the Soviet era, by 2015 private wealth accounted for similar share. In the US, by contrast, they suggest that whereas in the 1980s and 1990s rising income inequality, in part linked to fast-rising CEO pay, was the dominant factor behind the further concentration of wealth at the high end of the ownership scale, by the 2000s, an increase in earnings from wealth had become the driving factor (p. 173), corresponding to the main explanations offered by Piketty in his earlier work (Piketty, 2014).

<u>Waves of privatisation in Ukraine benefited emergent elites</u>

In Ukraine's case, the explanatory story is of course closer to that of Russia than to the US. That is, the process of privatisation played a key role in the development of its highly stratified pattern of wealth distribution, albeit without appearing to contribute greatly to economic growth—as seems to have happened elsewhere in eastern Europe—because of the form which privatisation took.

Privatisation in Ukraine took place in several waves and, in particular, in such a way as to mainly benefit well-connected members of the emerging post-communist business-political elite. In the first wave, in 1992-94, for example, although around 12,000 state-owned enterprises were sold off, these were mostly buyouts by the incumbent management (Boytsun, 2019, p. 112). The focus of the second wave in 1994-98 was on mass privatisation through vouchers. Although shares were sold in up to 50,000 publicly owned firms, there was a *de facto* change of ownership in only one-thirds of these cases, while the state remained significant owner in the rest. Amid the economic slump of the 1990s, many Ukrainians converted their ownership vouchers into ready cash, so that the bulk of these ended up in the hands of intermediaries and Soviet-era factory bosses, the so-called "red directors". In this way, the privatisations of the 1990s "cemented the position of the 'red directors', provided politically connected individuals access to the state assets and…laid the foundation of the oligarchy in Ukraine" (Boytsun, 2019, p. 112). A third phase of "insider privatisation" followed in the 2000s, and a fourth still more brazen one during the presidency of Yanukovych. The under-priced sale of the Kryvorizhstal steel plant to two "in-system" oligarchs (Pinchuk and Akhmetov) in 2004 under President Kuchma is an example of the first (Wilson, 2015, p. 325). The privatisations of electricity generators to Rinat Akhmetov and chunks of the regional gas-supply network to Dmytro Firtash are examples of the second (Tkach and Dalton, 2013, pp. 16-17).

<u>Privatisation in Ukraine is more associated with corruption than economic efficiency and growth</u>

Alongside liberalisation and macroeconomic stabilisation, privatisation was, of course, one of the "holy trinity" of marketising, globalising policies usually recommended by the international financial institutions (IFIs), such as the IMF and the EBRD, for the transformation of planned into market economies. From this perspective, the main justification for privatisation, drawn from the central theoretical propositions of neo-classical political economy, is an argument for economic efficiency. That is, it was expected that by re-conferring to ownership the right to control how an asset is used, profit maximisation could be re-introduced as a central tenet of economic life, with competition between producers raising productivity growth systematically (Douarin and Mickiewicz, 2017, pp. 181-184). Whereas there is some evidence that privatisation helped to boost firms' performance in central Europe and the Baltics, outcomes have been more ambiguous for privatised enterprises in former Soviet counties, such as Ukraine, especially where assets were sold to domestic buyers (Estrin et al, 2009).

Rather than boosting economic growth, one of the most striking economic effects of privatisation-driven wealth concentration has been wealth "offshorisation", itself reflecting the failure of the Ukrainian state to develop the capacity to enforce property claims impersonally, while the state's ability to develop such capacity was itself undercut by the implied reduction in taxes. The likely impact of these in combination on levels of investment in post-communist Ukraine, and through this its perennially poor growth rates, is probably one of the key economic side effects of the dominance of the Ukrainian oligarchy as a political economy institution, as a self-reproducing set of political and economic rules.

In combination, however, in Ukraine an inequitable privatisation process, alongside the disappointment over the promises made about its economic outcomes, has resulted in privatisation itself becoming widely discredited among the Ukrainian public, so that support for the policy in opinion polls has fallen sharply over the intervening decades (Boytsun, 2019, pp. 113-114).

VI. Dynamics of domestic business wealth in Ukraine, 2006-17

i) How did Focus-100 business wealth evolve over the decade to 2017? Deriving a time series for the domestic material power of Ukraine's super-rich

Shifting down from the international to the national level, the second analysis focuses on the two key sets of time series data developed in the first half of this chapter to examine the development of the relative wealth of Ukraine's economic elite. These series are summarised in Table 4.10 below. The first row reproduces the Focus-100 annual totals of domestic business wealth, set out already in Table 4.1. The third row adds my estimates of Ukraine's national wealth based on national accounts. Both are in billions of current US dollars. By treating business wealth as a ratio of national wealth, it is possible to produce an indicator of the scale and dynamics of the potential (domestic) material resource power at the disposal of the very rich in Ukraine in 2006-17—a key goal of much of the effort of the chapter up to this point. This series is shown in the emboldened bottom row of Table 4.10.

This section describes statistically how this indicator changed over time, both at whole-group level (that is, for the 100 rich-list members taken together) and at the level of the representative individual. It explains the fall in domestic material power across the Yanukovych and Poroshenko presidencies, one of the key findings.

Estimates for national wealth have been projected backwards for 2006 and 2007 by assuming wealth-income ratios similar to that for 2008. This provides a figure for the multiple of national income from which to derive the national wealth estimates for 2006-07, which are underlined in the table. The wealth-income ratio assumed here may be on the generous side as regards the estimate for national wealth that it produces, but is a conservative assumption when it comes to the ratio of material power it implies—that is, a lower level of national wealth for these years would boost the size of Focus-100 wealth as a share of national wealth.

Table 4.10: Focus-100 domestic business wealth & estimated national wealth, 2006-17

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Focus-100 domestic business wealth (US$ bn)	71.0	101.4	31.6	45.9	86.9	79.5	77.8	69.0	37.0	23.8	24.1	27.0
Focus-100 (% change, year on year)	n/a	42.8	-68.8	45.0	89.3	-8.5	-2.1	-11.3	-46.4	-35.6	1.3	11.9
SSSU "national wealth" (US$ bn, av Dec ex rates), + 80% of Credit Suisse	<u>422.1</u>	<u>565.7</u>	507.5	426.6	488.4	571.2	646.7	639.4	302.5	261.7	253.7	288.9
National wealth (% change, year on year)	n/a	34.0	-10.3	-15.9	14.5	17.0	13.2	-1.1	-52.7	-13.5	-3.1	13.9
SSSU net national income (US$ bn at av Dec ex rates)	<u>93.8</u>	<u>125.7</u>	112.6	98.7	121.1	144.8	157.3	162.6	87.9	73.2	78.1	97.7
NNI (% change, year on year)	n/a	34.0	-10.5	-12.3	22.7	19.6	8.6	3.4	-45.9	-16.8	6.7	25.2
Wealth-income ratio	<u>450</u>	<u>450</u>	451	432	403	394	411	393	344	358	325	296
Focus-100 business wealth as a share of national wealth (%)	**<u>16.8</u>**	**<u>17.9</u>**	**6.2**	**10.8**	**17.8**	**13.9**	**12.0**	**10.8**	**12.2**	**9.1**	**9.5**	**9.3**
Focus-100 business wealth as a share of national income (%)	<u>75.7</u>	<u>80.6</u>	28.1	46.5	71.7	54.9	49.5	42.4	42.1	32.5	30.9	27.6

Sources: Focus.ua. The Focus Ratings archive for 2006-17 data (published the following year) is available at: https://focus.ua/rating/archive. [Accessed September 27th 2019.] State Statistical Service of Ukraine (SSSU; 2019a), experimental balance of non-financial assets in 2017 and archive. Available: https://bit.ly/3ltmrz0. [Accessed September 19th 2019.]; (2019b), experimental balance sheets of financial assets and liabilities in 2017 and archive. Available: https://bit.ly/3rQGrN6. [Accessed September 19th 2019.] Sources: Shorrocks et al (2018b), Table 2.4, pp. 66-102. Own calculations.

Note: Own estimates for Ukrainian national wealth in 2006-07 (underlined), based on SSSU national income & estimated wealth-income ratios.

<u>Features and dynamics of Focus-100 business wealth: US dollar series</u>

Examining the US dollar series of the Focus-100 wealth (the first row of Table 4.10), some observations suggest themselves. The first is that there is considerable variation over time. The annual value of domestic business wealth of the richest 100 Ukrainians peaked at just over US$100bn in 2007, at the tail end of a global boom that began in the early 2000s, but fell to a low of less than one-quarter of that, or around US$24bn, in 2015-16, in the aftermath of the flight of Yanukovych and his inner circle, the onset of the war with Russia, and steep declines in global commodity prices, epitomised by a fall in world oil prices to a 20-year low. The highest individual domestic business wealth, of US$18.7bn, was recorded in 2011 for Rinat Akhmetov, the pre-eminent oligarch of the Donetsk region who held first place on the Focus-100 rich list for all 12 years of the series analysed here. The least wealthy individual to qualify for the list was Vladimir Tsoi, who heads MTI group, a distributor of communications and other electronic products. He was positioned in 100th place in 2015, with domestic business wealth of just US$26m (Focus Ratings, 2016).

While the patterns of change of national wealth and national income follow one another relatively closely in US dollar terms in 2006-17, the totals for business wealth tend to diverge from these around periods of crisis (this can be seen on Table 4.10 by comparing across time the percentage changes in the annual values of the three variables). So, whereas the value of domestic business wealth dropped much more steeply than national wealth and income with the onset of the global financial crisis of 2008, it also recovered more rapidly in its wake, touching almost US$87bn by 2010, the first year of the Yanukovych presidency. Thereafter, business wealth began to fall, despite growing national income and national wealth, with the pace of decline accelerating from 2013. Amid mass protests, war, the onset of recession and financial destabilisation, the scale of the drop in domestic business wealth in 2014-15 was, perhaps surprisingly, less steep than in 2008 and more in tune with the size of the economic impact more broadly, although the effect was also more drawn out, and the ensuing recovery of Focus-100 business wealth weaker.

<u>Features and dynamics of Focus-100 business wealth as a share of national wealth: an indicator of the changing domestic material resource power of the Ukrainian super-rich</u>

On their own, however, the nominal US dollar data do not tell us what we want to know, which is the pattern of change in the potential material resource power of the economic elite to Ukrainian society as a whole. The way I decided to "operationalise" this concept was to relativise business wealth to national wealth. This is shown in the emboldened line of Table 4.10 above. The same series is presented graphically in Figure 4.4 below as a black horizontal line, to be read against the right-hand scale as share of estimated national wealth. The data from which this ratio was calculated are also shown in the chart. These are the Focus-100 annual domestic business wealth totals (represented as dark grey bars for each year) and estimates for national wealth (the backgrounded, lighter grey blocked area), both to be read against the left-hand scale, in billions of US dollars.

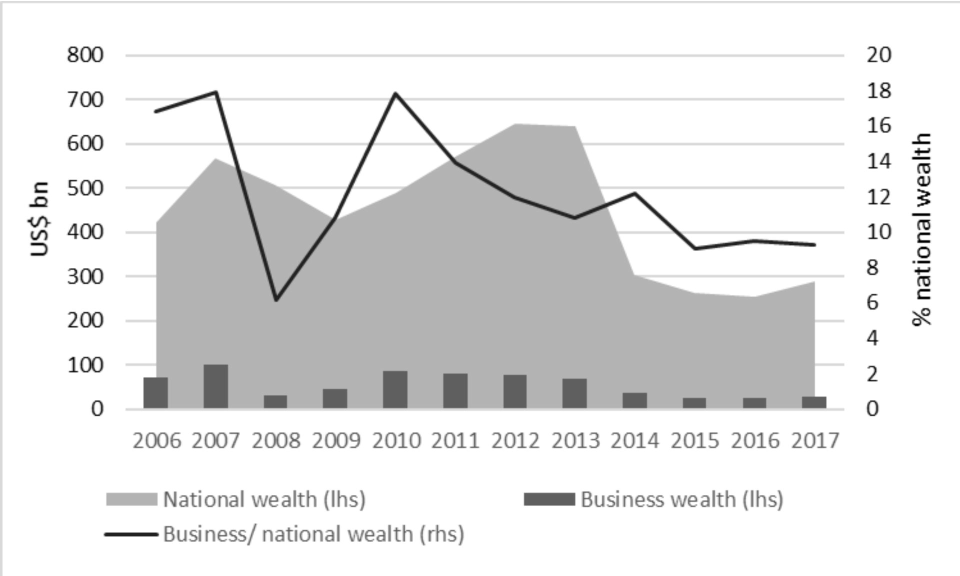


Figure 4.4: Focus-100 domestic business wealth vs national wealth, 2006-17. Sources: Focus.ua. Archive for 2006-17 data (published the following year) is available at: https://focus.ua/rating/archive. [Accessed September 27th 2019.] State Statistical Service of Ukraine (SSSU; 2019a), experimental balance of non-financial assets in 2017 and archive. Available: https://bit.ly/3ltmrz0. [Accessed September 19th 2019.]; (2019b), experimental balance sheets of financial assets and liabilities in 2017 and archive. Available: https://bit.ly/3rQGrN6. [Accessed September 19th 2019.] Shorrocks et al (2018b), Table 2.4, pp. 66-102. Available: https://bit.ly/3775cuU. [Accessed July 28th 2021.]

From Figure 4.4, a number of observations can be made.

- Most strikingly, on this measure, the observable, domestically held business wealth of the richest 100 Ukrainians peaked as a share of national wealth at almost 18% just before and immediately after the 2008-09 financial crisis, but was hit hard by the financial and economic turmoil in between—that is, the black horizontal line in the chart dips steeply in 2008.

- After peaking again in 2010, the broad trend is downward. Consequently, between 2010 and 2017, the business wealth of the very rich roughly halved as a share of national wealth, from 18% to 9%. This is one of the chapter's key empirical findings.
- Surprisingly, relative to national wealth, domestic business wealth fell more markedly during the Yanukovych presidency, by 7 percentage points between 2010 and 2013, than during the following 4 years, amid domestic political turmoil and war, when it dropped by about 3 percentage points.
- Even after their relative wealth had fallen by half, however, out of a total population of 44.8m in 2017 on World Bank data, the 100 richest Ukrainians still owned the equivalent of just over 9% of all the domestic financial and physical assets of the country.

ii) How did the level of business wealth change for the "typical" wealthy individual?

Choice of statistics

Another way of viewing the wealth dynamics of the very rich is to look at the pattern of business holdings for the typical group member and representative distribution of the Focus-100 series—that is, through statistical measures of central tendency and dispersion. But which ones?

To help with a decision, I first examined the data through the device of a box plot, which depicts how the observations of a variable are distributed. The "hinges" are placed 1.5 times above and below the high and low points of the main body of the distribution, and look, as in Figure 4.6 below, like capital "Ts" suspended above and below a solid grey box, which represents the middle 50% of the distribution, or interquartile range (IQR). These hinges mark the points beyond which an observation is considered an outlier—that is, one that differs significantly from the main pattern of the rest of the distribution.

The left-hand box plot below (Figure 4.5) shows the Focus-100 total in millions of US dollars for 2013, the last full year of the Yanukovych presidency. On this, any useful information about the typical pattern of wealth distribution of the 100 individuals on that year's rich list has been made uninterpretable, because it is too compressed by the presence of outliers, and especially by the business wealth holdings of Akhmetov, which in many years tower above those of everyone else on the rich list. At around US$15bn in 2013, the value of his Ukrainian business holdings is represented by the small grey dot floating alone in the top centre of Figure 4.5, high above the main body of the distribution.

To "decompress" the box and so more easily read off the relevant values from the box and hinges against the scale, the right-hand graphic (Figure 4.6) reproduces much the same information, but with the scale significantly reduced, so that the maximum is now US$1.2bn rather than US$16bn. From this, it can be seen that, in 2013, the middle 50% of the members of the Focus-100 rich list had business assets ranging between US$200m and US$550m (the bottom and top of the grey box).

Because of the preponderance of outliers, there is a significant gap in the Focus data between the mean (arithmetic average) and the median (middle) values for each distribution of business wealth. This can be seen on the right-hand graphic, where the darker horizontal line across the middle of the light grey box represents the median value. At about US$310m, it is much lower than the mean (marked by an "x" on the "whisker" above the box, at US$690m), but is more "central" as a description of the representative tendency of the main body of the distribution.

Here, using the mean would exaggerate the typical level of wealth among the richest Ukrainians. As such, median values are a better indicator of the data's central tendency, the point around which the rest of the observations are distributed. Similarly, although the standard deviation is the most common measure of the degree of data dispersion, one of the inputs for its calculation is the mean. Alongside the median, I will therefore use the interquartile range (IQR) as the appropriate measure of dispersion to examine the dynamics of the wealth for the typical individual of the Focus-100 group in 2006-17.

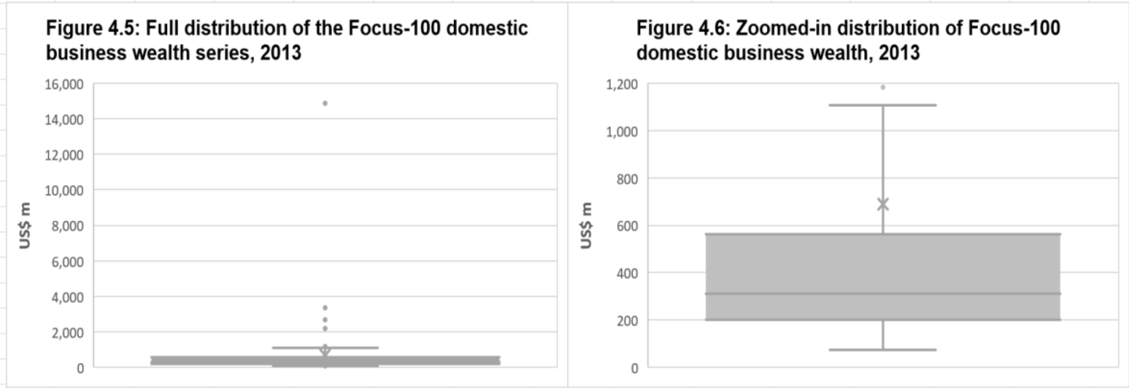


Figure 4.5: Full distribution of the Focus-100 domestic business wealth series, 2013

Figure 4.6: Zoomed-in distribution of Focus-100 domestic business wealth, 2013

Sources: Focus.ua. Archive for 2006-17 data (published the following year) is available at: https://focus.ua/rating/archive. [Accessed September 27th 2019.]

<u>Median and IQR: US dollars and as a share of national wealth</u>

Table 4.11 below presents a “five number summary” of the Focus-100 data. In line with the overall figures, it shows the median domestic business wealth peaking at US$522m in 2007, but recording a low of US$99m in 2015. The middle value was most consistently high in 2010-13, during the Yanukovych presidency, when it averaged US$326m. In 2014-17 the median business wealth of the very rich fell by about three-fifths in nominal US dollar terms, to US$123m.

Table 4.11: Distribution of Focus-100 business wealth: 5 number summary plus IQR, 2006-17

(US$ m)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Minimum	100	207	56	68	121	105	127	74	40	26	34	41
25th percentile	201	292	74	115	199	161	198	201	90	62	67	71
Median	**341**	**522**	**121**	**229**	**365**	**284**	**346**	**311**	**128**	**99**	**133**	**133**
75th percentile	640	915	290	380	897	781	751	546	333	184	239	268
Maximum	12,000	14,620	3,683	7,520	15,590	18,659	16,830	14,871	7,700	3,100	2,200	3,100
Range	11,900	14,413	3,627	7,452	15,469	18,554	16,703	14,797	7,660	3,074	2,166	3,059
Interquartile range (IQR)	**439**	**623**	**216**	**265**	**698**	**621**	**553**	**346**	**243**	**123**	**172**	**197**

Sources: Focus.ua. The Focus Ratings archive for 2006-17 data (published the following year) is available at: https://focus.ua/rating/archive. [Accessed September 27th 2019.] Own calculations.

Note: For each year of the ratings, the relevant web page on wealth is usually titled "samikh bahatshykh lyudey Ukrayiny", "Ukraine's richest people".

In 2010 the interquartile range—the distribution of individual business wealth between the 25th and 75th percentiles—was almost US$700m, with 50% of those on the Focus-100 list owning business assets worth between US$200m and US$900m. By 2017, the middle 50% of individuals held between US$70m and US$270m in business wealth, reducing the interquartile range to just US$200m, more because of a rapid fall in the wealth of the richest individuals in this group (the 75th percentile) than the least well off (the 25th percentile), so that the ceiling and floor of the IQR began to converge more closely on the (declining) median values.

As with the Focus-100 annual totals, it is more useful for the aims of this study—looking at wealth as potential political power—to examine the dynamics of the wealth of the typical individual (the median) and the representative distribution pattern (the interquartile range) as a ratio of estimated national wealth. While this offers a better indication of the changing material power of the representative rich-list member, the results—the value of individual business assets as a share of all of Ukraine's assets—are less easy to grasp than their corresponding US dollar values because of the small scale. The information is therefore presented visually in the Figure 4.7 below.

The data on which the chart is based show that the median business wealth in the Focus-100 group (the black dashed central line on the chart) averaged 0.057% of national wealth in 2010-13, but that in 2014-17 it fell to 0.045%. Moreover, in 2014-17 the spread of the central 50% of the distribution was both a little lower and narrower than in the previous four years, as the "floor" (the 25th percentile) fell modestly and the "ceiling" (the 75th percentile) more markedly, although it had already come down significantly under Yanukovych. So, although in the Yanukovych era the middle portion of the Focus list members held individual wealth equal to 0.033-0.130% of Ukraine's nation wealth (an interquartile range of 0.098 percentage points), this has fallen to 0.026-0.092% in the first four years after the Euromaidan, an interquartile range of just 0.066 percentage points, more tightly clustered about the median value. That is, between the Yanukovych and the Poroshenko eras, the potential material power of the representative distribution of individuals on the rich list became more equal at a lower level. As with the wealth totals for the whole Focus-100 group, therefore, this suggests a weakening of the potential domestic material power of the typical rich-list member. Whether this is likely to have translated into a corresponding loss of political influence will be answered in the conclusion to this chapter.

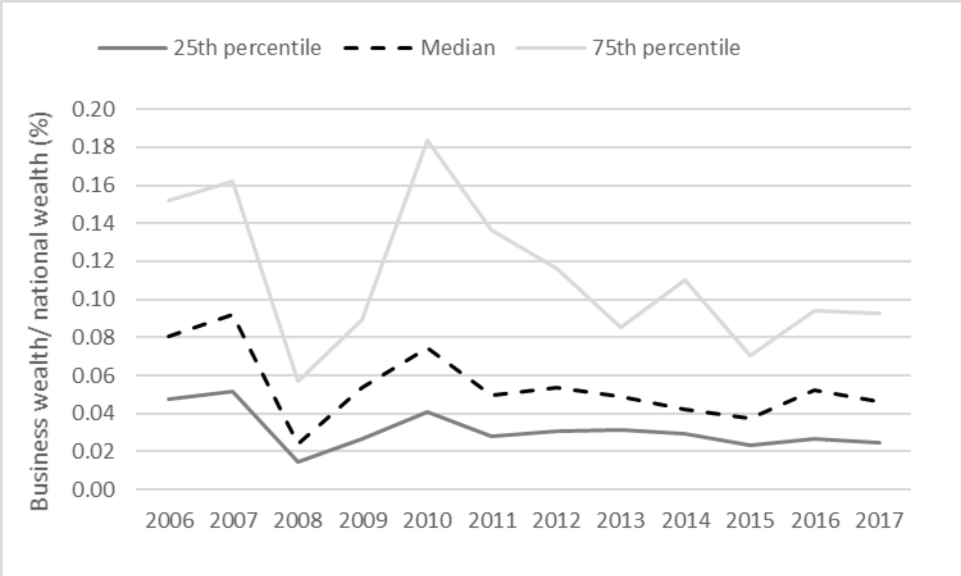


Figure 4.7: Focus-100 business wealth as a share of national wealth: median & IQR, 2006-17. Source: Focus.ua. The Focus Ratings archive for 2006-17 data (published the following year) is available at: https://focus.ua/rating/archive. [Accessed September 27th 2019.] State Statistical Service of Ukraine (SSSU; 2019a), experimental balance of non-financial assets in 2017 and archive. Available: https://bit.ly/3ltmrz0. [Accessed September 19th 2019.]; (2019b), experimental balance sheets of financial assets and liabilities in 2017 and archive. Available: https://bit.ly/3rQGrN6. [Accessed September 19th 2019. Shorrocks et al (2018b), Table 2.4, pp. 66-102. Own calculations.

iii) Why does the domestic "material resource power" of the Focus-100 fall so steeply in the modern era?

What explains the broad fall, or "dilution", in the observable domestic business wealth of the very rich in relation to Ukrainian society in 2010-17, both at the level of the rich list as a whole and of the typical member? And why did it fall more markedly during the rule of Yanukovych than in the general crisis that followed his political demise?

Fortunately, the (unnamed) Focus editors, in the introductions to the wealth rankings, as well as the more detailed accounts of individual wealth trajectories that they sometimes provide, offer a sufficient account across a range of specific, plausible factors—taking in the global, regional, domestic and sectoral levels—to explain this downward trend. For ease of exposition, an outline of these factors will be handled in two parts—those behind the steep fall in business wealth during the Yanukovych presidency, and those mainly affecting the (early) post-Euromaidan period. In sum, under Yanukovych, the main factors were adverse global economic trends alongside intensified state economic predation at home. Following the collapse of his administration, a more generalised societal crisis ensued. In each case, the effects of political and economic development on the material power of the Ukrainian economic elite were mediated through the impact on the local stockmarkets, and so on the company valuations on which the Focus-100 rich list is based.

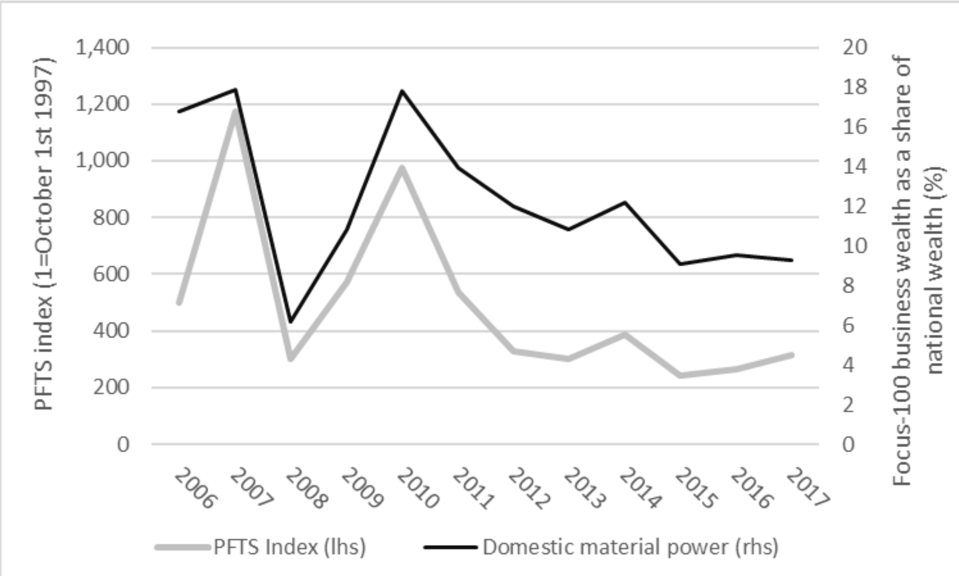


Figure 4.8: Dynamics of material power of Ukraine's economic elite vs PFTS stock index, 2006-17. Sources: National Bank of Ukraine (NBU). Financial Sector Statistics, Data: PFTS Index. Available at: https://bank.gov.ua/ua/statistic/sector-financial/data-sector-financial#2fs. [Accessed March 6th 2022.] Focus.ua. The Focus Ratings archive for 2006-17 data (published the following year) is available at: https://focus.ua/rating/archive. [Accessed September 27th 2019.]

The fall in the domestic business wealth of the very rich thus appears to correspond mainly to stockmarket performance, which both fell faster than national income and national wealth in times of crisis, but tended to recover ahead of them afterwards. This is shown in Figure 4.8 above by the broad similarity in the movement over time of the ratio of the Focus-100 domestic business wealth to national wealth, viewed against the movement of the PFTS index, which tracks share valuations on the largest of Ukraine's two stockmarkets. By tracking the movement of an externally verified data series—

ie the PFTS index—this similarity of movement offers some “quality assurance” regarding the Focus-100 data, potential concerns about which were raised earlier in the chapter.

Main factors behind the fall in Focus-100 business wealth under Yanukovych

The introductions to the Focus wealth rankings for 2011 (published in March 2012) and for 2012 (published in April 2013) place us in the middle of the action, so to speak—that is, with the Yanukovych presidency already under way and its authoritarian trajectory understood. At the level of the Focus rich list as a whole, the Focus editors suggest two broad sets of factors driving the steep fall in business wealth in this period, and one affecting the relative fortunes of specific individuals within it.

The first broad economic factor is a sharp decline in company valuations on the Ukrainian stockmarket in 2010-13, linked primarily to a fall in global stockmarkets. This was an effect of the then ongoing European sovereign debt crisis, which had developed out of the earlier global financial crisis of 2008-09, undermining the public finances of several EU states, while generating serious intra-EU conflict over the best means of tackling high levels of public debt. In Ukraine, this had a depressing knock-on effect on the fortunes of businesses—and so also their valuations and the net worth of their owners—in agriculture and metals, linked to Ukraine’s main commodity exports, wheat and steel.

The second broad factor, this time originating from domestic political developments, was an intensification of state predation of businesses, often by means of the state tax administration. This created strong incentives for the wealthy both to invest abroad, as well as to obscure asset ownership or to create the appearance of poor performance, thereby rendering the business an unattractive target for coercive takeover[14]. Thus, write the Focus editors, “businessmen whose relations with the current government are not so close prefer to diversify their businesses and acquire assets abroad” (Focus, 2011). The individual businessmen they name include high-profile figures such as Andriy Verevskyi, the chair of Kernal Holding, a large agri-business concern; Vyacheslav Bohuslayev, one of the original “red directors”, who, after the fall of

[14] As Kolomoyskyi did, the Focus editors suggest, to protect his ownership of Ukrainian Airlines.

Soviet communism, found himself the head of a large aircraft engine manufacturing business (Motor Sich) in Zaporizhzhya; and Kostyantyn Zhevaho, who runs the Finances and Credit conglomerate. All of these figures are leading oligarchs in their own right, and all appear in the list of the wealthiest, longest-lasting members of Ukraine's contemporary economic elite (labelled the "core rich" in the next section).

The Focus texts paint a picture of an extremely tough business operating environment in Ukraine in this period—even as the country began to make forward strides in international indexes, such as the World Bank's Ease of Doing Business rankings (World Bank, 2013)—when the struggles between business-political networks of the "Orange" era gave way to a phase in which Yanukovych had consolidated his position in the state sufficiently not only to begin to reward favoured oligarch backers (primarily Akhmetov and Firtash) with under-priced sales of state assets, but also to begin to develop his own proto-business network, known as "the family", and centred on Yanukovych's elder son, Oleksandr, and his associates (Tkach and Dalton, 2013, pp. 10-11). Along with the operation of poor macroeconomic policy, symbolised by the maintenance of a fixed exchange-rate regime, even as the external account began to deteriorate, this is likely also to have undermined business confidence, further eroding Ukrainian company valuations from within.

A third factor, this time helping to explain the changing relative fortunes of specific individuals within the group of the very rich, and implied by the second factor, is proximity to official political power. Although it is a theme that runs through the political economy of Ukraine since independence, during the Yanukovych presidency, maintaining good relations with the politically dominant regional network as a strategy for sustaining wealth took on a special importance. In the succinct phrase of the Focus editors, "the best results are shown by those close to Viktor Yanukovych" (Focus, 2011).

<u>Main factors behind the fall in Focus-100 business wealth after the fall of Yanukovych</u>

Surprisingly, the scale of the drop in business wealth in 2014-15 was less steep than in 2008 and more in tune with the size of the economic hit more broadly, but it was also more drawn out, and the ensuing recovery weaker. In the period after the flight of Yanukovych and his associates in late February 2014, signalling the onset of a protracted general crisis, wealth-holders were in preservation mode, according to Focus (Focus Ratings, 2015). In this period, the key factors behind the fall in business wealth are threefold. These are:

- the depressing effect on the confidence of economic actors because of drawn-out domestic political turmoil and uncertainty;
- the economic impact of military conflict with Russia, not only in terms of loss and destruction of assets following the annexation of Crimea and the onset of armed conflict in the Donbas, but also of the loss and destruction of sales potential, through the suspension of production facilities and the closure of shopping outlets; and
- the onset of a protracted period of recession and macro-financial destabilisation, linked to the first two, but an outcome also of the unwinding of the macroeconomic imbalances built up as a result of the inept economic policy pursued under Yanukovych.

VII. Do the richest Ukrainians stay rich longer? Who are they?

i) Frequency table of longevity on the Focus-100 rich list: patterns of turnover and stability within Ukraine's economic elite

As well as showing the dynamics of the domestic wealth of Ukraine's super-rich, personnel changes on the Focus-100 list shine a light on the patterns of turnover, cohesion and even inequality within the Ukrainian economic elite over more than a decade. Had the entire list been replaced each year with a new set of individuals, for example, total membership across all 12 years would have produced 1,200 separate cases (individuals or family couplings). That there are only 239 such cases indicates a degree of institutional stability across time.

For these 239 cases, divergent patterns of longevity of membership on the list can be discerned. These patterns suggest that there has been considerably more positional stability at the very top end of the wealth spectrum than lower down. The results are set out in Table 4.12 below. Strikingly, this shows that in almost half of all cases (116), membership on the list lasted for three years or fewer. Just over 70% were on the list for six or fewer years (168 cases). This means that only 30% of those appearing on the list, or 71 cases, have maintained their presence for seven or more years. Of these, just 32 cases (31 individuals plus the Surkis brothers) qualified for inclusion for the whole 12-year period, or around 13% of the total.

Table 4.12: Individual longevity on Focus-100 rich list, 2006-17

Years present	Frequency (no.)	Share (%)	Cumulative share (%)
1	47	19.7	19.7
2	33	13.8	33.5
3	36	15.1	48.5
4	17	7.1	55.7
5	22	9.2	64.9
6	13	5.4	70.3
7	6	2.5	72.8
8	16	6.7	79.5
9	6	2.5	82.0
10	7	2.9	84.9
11	4	1.7	86.6
12	32	13.4	100.0
Total	**239**	**100.0**	**100.0**

Sources: Focus.ua. The Focus Ratings archive for 2006-17 data (published the following year) is available at: https://focus.ua/rating/archive. [Accessed September 27th 2019.] Own calculations.

Note: For each year of the ratings, the relevant web page on wealth is usually titled "samikh bahatshykh lyudey Ukrayiny", "Ukraine's richest people".

Although membership of the Focus-100 rich list represents a very small group within Ukrainian society, this analysis suggests that an even smaller group is persistently present within it. That is, although the rich list itself tends to undergo a high rate of replacement of personnel at the bottom end of the distribution, a much smaller number of individuals were able to maintain their position on the list for a decade or more.

ii) Frequency table of the distribution of domestic US dollar business wealth: only one-quarter of the Focus-100 hold domestic assets worth more than US$300m

Prompted by the theory of oligarchy set out in Chapter Two, this raises the question of whether the ability to endure on the rich list is linked to the level of wealth held. As an initial step to investigate this, I first generated a variable for average annual US dollar domestic business assets for each wealthy individual (or family couple), then grouped this data into categories to make it easier to make out an overall pattern. Average annual business wealth was calculated by summing the value of wealth for each individual for all the years they are present on the Focus list, then dividing this by the number of years present.

The frequency distribution of this new variable is set out in Table 4.13. It shows that, for just over 50% of cases, average annual domestic business wealth was below US$200m, and for almost three-quarters (73%), below US$300m.

Table 4.13: Average annual business wealth of individuals on the Focus-100 rich list, 2006-17

Wealth (US$ m)	Frequency (no.)	Share (%)	Cumulative share (%)
0-100	44	18.4	18.4
101-200	79	33.1	51.5
201-300	52	21.8	73.2
301-500	27	11.3	84.5
501-1,000	24	10.0	94.6
1,001-1,0000	13	5.4	100.0
Total	**239**	**100.0**	**100.0**

Sources: Focus.ua. The Focus Ratings archive for 2006-17 data (published the following year) is available at: https://focus.ua/rating/archive. [Accessed September 27th 2019.] Own calculations.

Note: For each year of the ratings, the relevant web page on wealth is usually titled "samikh bahatshykh lyudey Ukrayiny", "Ukraine's richest people".

Although roughly the top quarter of wealth-holders therefore had annual average assets of US$300m or above, only around 5% of Ukraine’s richest people (13 individuals) had business wealth of US$1bn-10bn. This suggests that wealth distribution is highly skewed even among leading wealth-holders, with a significant gap between the top 5% and the rest.

<u>iii) Strip chart and measure of association for the relationship of level of material power and longevity on the Focus-100 rich list: wealth sustains wealth</u>

Turning now to the relationship between wealth and rich-list longevity, the pair of charts below show the (uncategorised) distribution of average business wealth as a share of national wealth for each individual on the Focus-100 rich list in 2006-17 by the number of years they appeared on it. The switch from US dollar data is because the key concern of this chapter is elite wealth relative to Ukrainian society—that is, as a social and political power.

Figure 4.9 shows the full picture, including conspicuous outliers, signified by the two grey dots hanging well above the main body of the rest of the distribution. The first dot, on the left-hand side of this chart, represents Lakshmi Mittal, an Indian steel tycoon, whose investments in Ukraine led to his (temporary) inclusion early on the Focus list. The second outlier, towards the top right of the chart, represents the relative wealth of Rinat Akhmetov. Although the estimated US dollar value of Akhmetov's domestic business assets has fluctuated considerably, the strip chart indicates that, on average in 2006-17, they were equal to just over 2% of Ukraine's national wealth.

By greatly reducing the scale, the right-hand graph zooms in on the data distribution, excluding the outliers from view and so making clearer a mild but definite positive slope in the relationship—ie, that higher individual wealth appears associated with more time on the rich list, but with a marked spike for those who have "gone the distance"—that is, remained on the list for the maximum 12 years.

A correlation coefficient can be used to assess the strength and direction of linear association of this relationship, on a graded scale of -1 (perfectly negatively associated) to +1 (perfectly positively associated), with zero indicating the absence of a linear relationship. For the data in the left-hand scatter graph, the coefficient (produced using a simple command in the Stata software) is 0.324—that is, positive in direction, but relatively weak. (Without the outliers, this would rise to 0.514, interpreted as an association of moderate strength.) According to this analysis, then, there is some evidence that level of business wealth is associated with longevity on the Focus-100 rich list.

Figure 4.9: Share in national wealth of the rich vs years on the rich list, 2006-17

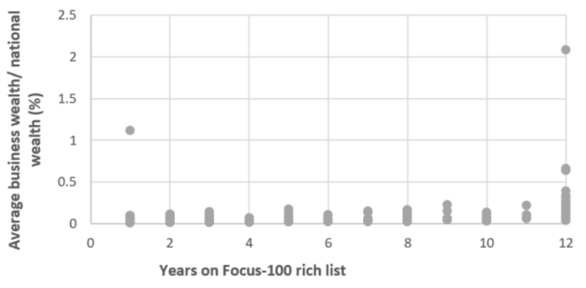
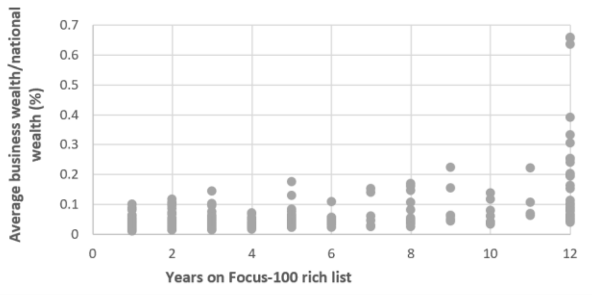


Figure 4.10: Zoomed-in share in national wealth of the rich vs years on rich list, 2006-17



Source: Focus.ua. The Focus Ratings archive for 2006-17 data (published the following year) is available at: https://focus.ua/rating/archive. [Accessed September 27th 2019.] State Statistical Service of Ukraine (SSSU; 2019a), experimental balance of non-financial assets in 2017 and archive. Available: https://bit.ly/3ltmrz0. [Accessed September 19th 2019.]; (2019b), experimental balance sheets of financial assets and liabilities in 2017 and archive. Available: https://bit.ly/3rQGrN6. [Accessed September 19th 2019. Shorrocks et al (2018b), Table 2.4, pp. 66-102. Own calculations.

In order to get an idea of the size of effect of levels of wealth on longevity on the rich list in a more meaningful way—that is, in terms of the scale in real world units of measurement—we can perform simple linear regression on the same data. This is a statistical technique that “fits” a line to the data points by minimising the distance between them, producing also a value (the beta coefficient) that indicates both the direction of the relationship (positive or negative) and the steepness of the gradient of the slope. With years present on the rich list as the dependent variable (the one to be predicted or explained) and individual business wealth (here, as a share of national wealth averaged over the number of years present on the list) the single independent or explanatory variable, Stata tells us that the relationship is a positive one (as wealth rises, time present on the list tends to rise). More precisely, it suggests that with incremental increase in business wealth equal to 1% of national wealth, you could expect to last an additional 7.17 years on the rich list. Dividing both sides by 7.17 to arrive at a more meaningful number, we can say that, on this data, an increase in business wealth equal to 0.14% of national wealth is associated with an additional year on the rich list. The software confirms that, with a probability value (p-value) of below 0.05, a common confidence benchmark set in the social sciences, this relation is statistically significant—that is, it is unlikely to have occurred by chance. However, the Stata readout indicates that average relative wealth predicts only around 10% of the variation in the “years present” variable (the R-squared value), which means, of course, that other explanatory factors are also in play.

<u>iv) How might levels of wealth explain longevity on the rich list? Wealth defence as a subset of mechanisms of circular and cumulative causation?</u>

How might this relationship be explained? The theory of wealth defence (Winters, 2011, pp 20-26) outlined in the previous chapter offers one strategy. To recap, wealth as a power resource is distinguished by its capacity to be deployed flexibly in its own defence. Holders of concentrated wealth are able to buy the services they need—whether coercive or professional—to allow them to see off the threats that wealth-holders tend to face, thereby defending their property claims. How this is done depends on the specific threats faced and the kind of political institutions in place. But with greater wealth comes a greater, and perhaps more effective, range of protective options, so that there is a better chance of staying rich for longer.

However, institutional economics supplies a broad explanatory principle, of circular and cumulative causation, which would also explain the correlation observed in the strip chart. This is an approach—associated most closely with Gunnar Myrdal, a Swedish economist—that stresses the self-perpetuating quality of processes driving socio-economic inequality, so that “divergence rather than convergence is the norm” (Stilwell, 2019, p.115). The relevant contrast is with the conception of economic dynamics governed by equilibrium processes, which is at the heart of neo-classical thinking. In the case of concentrated riches, circular and cumulative causation translates into the idea that “wealth breeds wealth”, first because it permits the generation of wealth-enhancing income—through profits, rents or interest—without having to resort to work and, second, over generations, because of the educational, social networking and material benefits (such as inheritance) that birth into a wealthy family brings with it (Stilwell, 2012, pp. 223-225; 2019, pp. 115-117).

It may be possible, however, for wealth defence to be viewed as a subset of the mechanisms by which circular and cumulative causation operates in the case of wealth inequality, as a special set of mechanisms of a more general process—although any attempt to reconcile the two may be complicated by the very different social ontologies, or views of what the social world is, underlying them.

For modern Ukraine, in addition to the above “virtuous circle” of wealth-holding as an explanation for enduring wealth, should be added a Ukraine-specific one, already referred to in the section of privatisation above, which is the institutionalisation of a range of adaptable, extractive economic practices or schemes—illustrated in detail with examples from the energy sector in Chapter Six—as a normal part of political life centred on transactional relationships between business-political networks. That is, the oligarchy itself is an institutionalised set of adaptable economic and political practices for perpetuating wealth inequality.

v) The “core” rich: those on the rich list for 10 years or more and with wealth holdings in the top quartile

Finally in this section, Table 4.14 below presents a shortlist, developed from the data already collected, of the “core” rich, who are the most enduringly successful business leaders on the Focus-100 rich list for 2006-17. This is defined as those who managed both to remain in the top quarter of cases in terms of material power[15], and to appear on the rich list for ten years or more.

With most of the well-known “old” oligarchs clustered towards the top of the list, I have added to the table information not only on individuals’ main companies and business sectors, where available, but also on political participation and association, where known.

The sources for this information are recorded at the bottom of the table. From the table it can be seen that, as well as owning high-value domestic business assets, many of the “core” rich have also held seats in parliament, or positions in government or public office (several have headed the central bank, for example), so meeting the criteria of “oligarch” used in this study.

[15] US dollar wealth measured as a share of national wealth, averaged over the number of years on the rich list: the fourth column in Table 4.14.

Table 4.14: The "core" rich, 2006-17, with some economic & political details								
No.	**Name**	**Business wealth (US$ m; av)**	**Share of national wealth (%; av)**	**Years on Focus-100 rich list**	**Main company/ companies**	**Main sectors**	**National political involvement**	**Network, regional, political links**
1	Rinat Akhmetov	9,989	2.08	12	System Capital Management (SCM); DTEK	Metallurgy, power engineering, electricity, media, banks, insurance, mining	People's deputy 2006-12; "old" oligarch	Leading Donetsk/ Donbas network; PoR backer
2	Ihor Kolomoyskyi	3,005	0.66	12	Privat Group	Metallurgy, oil (Ukrnafta, Ukrtransnafta), media, banks, airline, chemicals	Dnipropetrovsk governor; "old" oligarch	Kolomoisky's network arose during the Kuchma era out of Dnipropetrovsk region
3	Viktor Pinchuk	2,999	0.66	12	Interpipe	Metallurgy/ steel, media	People's deputy until 2006; "old" oligarch	Regional base originally in Dnipropetrovsk, through strong links to Kuchma
4	Hennadiy Boholyubov	2,898	0.63	12	Privat Group	Banking		Business partner of Kolomoisky
5	Vadym Novynskyi	1,899	0.39	12	Smart Holding	Metals, machine-building, ship-building, agriculture	People's deputy in 7th & 8th convocations	Business partner of Akhmetov; PoR, Opposition Bloc
6	Kostyantyn Zhevaho	1,558	0.33	12	Finance & Credit	Banking, machine-building, chemicals, mining, vehicles	People's deputy in 7th & 8th convocations	
7	Dmytro Firtash	1,461	0.30	12	Group DF; RosUkrEnergo; Ostchem	Gas, chemicals, banking, media	"Old" oligarch	Key link with Russian gas officials
8	Kostyantyn Hryhoryshyn	1,171	0.25	12	Energy Standard			
9	Vitaliy Hayduk	1,164	0.25	12	Industrial Union of Donbas/ IUD to 2009	Heavy industry	Energy minister, deputy PM, head of the security council	One of the original Donbas "Red directors"
10	Serhiy Taruta	1,097	0.22	11	Industrial Union of Donbas/ IUD	Metallurgy, media	People's deputy in 8th convocation	
11	Yuriy Kosyuk	1,029	0.24	12	MPKh	Food	Presidential Administration	In business with Poroshenko?
12	Oleksandr Yaroslavskyi	860	0.20	12	Ukrsib; Development Construction Holding	Finance, industry construction, agriculture, insurance		
13	Petro Poroshenko	846	0.20	12	Ukrprominvest until 2012; Roshen	Food/ confectionary, manufacture of vehicles & boats, banking, media, 5th Element Club	People's deputy; economy minister, NBU head, president	
14	Andriy Verevskyi	821	0.20	12	Kernel	Food	MP 2002-13; last time for the PoR	
15	Leonid Yurushev	852	0.19	12	Forum Group			
16	Serhiy Tihipko	703	0.16	12	Privat Group originally, then TAS Group	Finance, machine-building, insurance	Economy minister; head of the NBU; people's deputy in 7th convocation for the PoR	
17	Leonid Chernovetskyi	640	0.15	12	Pravex			
18	Viktor Nusenkis	704	0.14	10	Energo			

Table continued overleaf…

Table 4.14: The "core" rich, 2006-17, with some economic & political details								
No.	**Name**	**Business wealth (US$ m; av)**	**Share of national wealth (%; av)**	**Years on Focus-100 rich list**	**Main company/ companies**	**Main sectors**	**National political involvement**	**Network, regional, political links**
19	Valeriy Khoroshkovskyi	558	0.12	10	Ukrsotsbank	Metals, media, banking	Economy minister, finance minister, people's deputy	
20	Vasyl Khmelnytskyi	531	0.11	12	Kyiv Investment Group	Steel, property, utilities	Economy minister; head of the NBU; people's deputy 1998-2014	PoR, Sovereign European Ukraine
21	Oleksiy Martynov	510	0.11	11				
22	Vyacheslav Bohuslayev	429	0.10	12	Motor Sich	Machine-building	Rada MP since 2006, including in 7th & 8th convocations	PoR, People's Will
23	Vitaliy Antonov	426	0.10	12	Universal Investment Group			
24	Andriy Ivanov	420	0.09	12				
25	Hryhoriy & Ihor Surkis	411	0.09	12	Dynamo?	Food, energy, hotels	One or both brothers were MPs at different times	In business with Medvedchuk? Kyiv business-political network
26	Oleksandr & Serhiy Buryak	370	0.08	10		Banking, machine-building, chemicals, mining, vehicles	One or both were MPs at different times? Olexandr was deputy in 7th convocation	
27	Mykola Yankovskyi	335	0.08	12	Stirol	Chemicals	Long-time Rada deputy to 2012	PoR
28	Volodymyr Kostelman	331	0.08	12				
	Total	**38,015**	**8.21**					

Sources: Focus.ua. The Focus Ratings archive for 2006-17 data (published the following year) is available at: https://focus.ua/rating/archive. [Accessed September 27th 2019.] Verkhovna Rada. Available: https://iportal.rada.gov.ua/. [Accessed September 13th 2021.] Heiko Pleines (2016b). Demid Chernenko (2018). Slawomir Matuszak (2012). Own calculations.

From the table and the information on this group of the Ukrainian rich in the data set, several points can be drawn. These are that the "core" rich:

- are a tiny minority within a tiny minority, comprising just 28 individuals, or 11.7% of all cases, on the Focus-100 rich list in 2006-17;
- tend between them to own the bulk (60-70%) of all the domestic business wealth held by the top 100 in any one year;
- held between them average business wealth equal to 8.2% of national wealth for 2006-17 as a whole.

While not all of the individuals on the Focus-100 rich list are likely to be oligarchs, the top-tier of oligarchs, defined in this research after Heiko Pleines (2016a) as wealthy business leaders involved in national politics, are likely to be concentrated among the "core" rich. This, then, is a starting point for identifying individual oligarchs by name outside the handful of those regularly referred to in the Ukrainian press. A final point from the table is that it suggests a degree of sectoral specialisation within the groups, so that we could perhaps tentatively identify metallurgy, energy, media and banks as characteristically “oligarch” or rent-seeking economic sectors.

C. Chapter summary and conclusions

VIII. Recap of the main empirical findings and economic implications

Bringing together the main empirical findings of this chapter, the first point is that, according to estimates derived from national accounts, Ukraine’s national wealth is considerably larger than indicated by some high-profile sources (namely, Credit Suisse). A second observation is that, despite the disparity in the size and structure of their economies, before the onset of war in 2014, the broad picture of productivity of the Ukrainian economy, as shown by wealth-income ratios of around 400-450%, was similar to that of Russia, probably rooted in a common institutional-technical economic inheritance from the Soviet era. On wealth distribution, a number of indicators in combination strongly suggest that modern Ukraine and Russia are among the most unequal countries in Europe, and perhaps the world. This reflects similarities of the post-communist wealth accumulation processes, and especially of the modes of privatisation that took place. Similarities in the original and ongoing elite wealth extraction and accumulation schemes, by way of personal network connections to the state, are again rooted in the two countries’ shared late Soviet institutional-political culture, or practical understanding among elites of the fusion of the political and economic realms of social life.

Personnel changes over time in the composition of the Focus-100 ranking of the richest Ukrainians point to greater positional stability at the top end of the wealth spectrum, associated with the relatively higher level of wealth. This association offers some support to theory of wealth defence, but also to the institutionalist concept of circular and cumulative causation. By identifying those in the top quarter of wealth-holders who have remained on the Focus-100 ranking for ten years or more, it is possible to identify a very small group of individuals (28) who constitute the “core rich”. These are among the most enduringly successful members of the contemporary Ukrainian economic elite, a minority within a minority, among whom oligarchs (the politically active rich) are well represented.

“Offshoreisation” may be seen as one of the key outcomes of the process of wealth concentration in a situation in which property rights are weak, and so as a practice both to protect wealth from business-political rivals and to evade taxes. Simultaneously, however, it is both a key “external” mechanism in the reproduction of the Ukrainian oligarchy as an institution (allowing oligarchs to survive with wealth, the source of their material power, intact through periods of political marginalisation) and an outcome of this process with perhaps the most significant negative long-term economic impact. However, it can be noted here that the economic effects of offshoreisation of the wealth of Ukrainian elites include not just the removal of funds from the economy, but also reduction in the financial capacity of the central state, one of the crucial ingredients, according to the institutional theory of prosperity, for creating a reasonably level legal “playing field” as a basis for capital accumulation. By reducing the capacity of the state to implement legal rules relatively even-handedly, this, in turn, can perhaps be seen as feeding back into the recreation of the same incentives that had helped to drive offshoreisation in the first place, as well as preventing the development of the conditions needed to attract modernising investment, on which a sustained rise in productivity and living standards depends.

<u>IX. Does the fall of domestic business wealth of the very rich mean that the oligarchs’ political influence also fell after the Euromaidan events?</u>

As it relates most centrally to the research question, the key finding of the chapter, however, is of a marked fall in the observable domestic business wealth of the very rich relative to the wealth of Ukrainian society, from around 18% in 2010 to about 9% in 2017. But does this decline, interpreted as a drop in material resource power of the economic elite, correspond to a fall in their political influence, and of oligarchs’ political influence in particular, following the flight of Yanukovych? Some commentators have argued as much, especially in the early years of the post-Euromaidan period. Aslund, for example, in an interview in late 2016, argues that “the power of the oligarchs has declined” in Ukraine, because “in the last 2 years the oligarchs as a group have lost 2/3 of their wealth, and several of them…are completely out. The oligarchs are not a problem anymore, because they suffered heavy losses” (Filipiak, 2016).

There are a number of reasons for believing that this may not be the case, however. The argument set out below is an elaboration of part of an outline of my research that I wrote for a VoxUkraine, a Ukrainian-run economics website (Dalton, 2021.)

First, on the definition adopted in this study, oligarchs are only a subset of all those who appear on the Focus-100 rich list—that is, they are owners of great wealth who use their riches politically in order to further their business aims. Others on the rich list, who are not politically active in this way, instead try to run companies profitably in a tough business environment, whether as owners or managers.

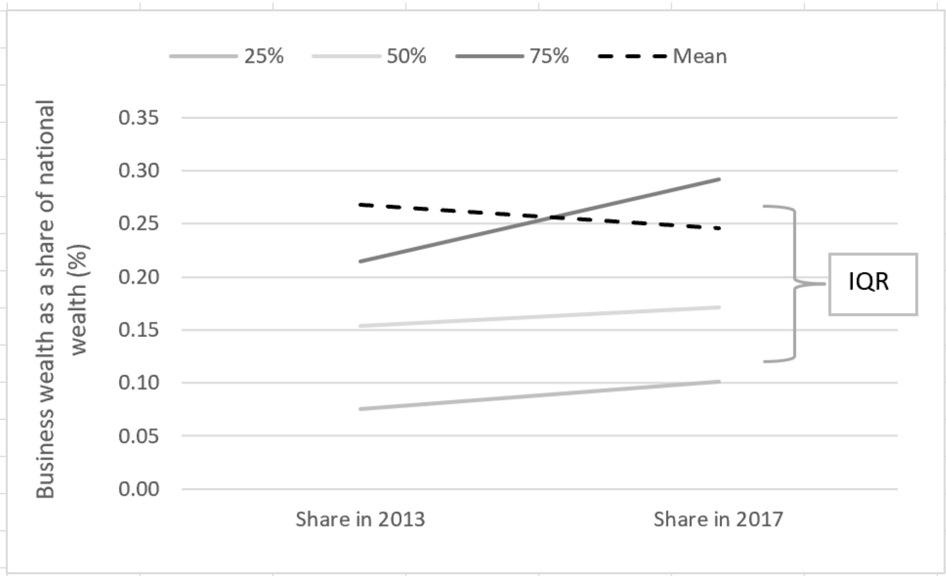


Figure 4.11: Changing share of domestic business wealth of the "core rich" in national wealth, 2013 vs 2017. Source: Focus.ua. The Focus Ratings archive for 2006-17 data (published the following year) is available at: https://focus.ua/rating/archive. [Accessed September 27th 2019.] State Statistical Service of Ukraine (SSSU; 2019a), experimental balance of non-financial assets in 2017 and archive. Available: https://bit.ly/3ltmrz0. [Accessed September 19th 2019.]; (2019b), experimental balance sheets of financial assets and liabilities in 2017 and archive. Available: https://bit.ly/3rQGrN6. [Accessed September 19th 2019. Shorrocks et al (2018b), Table 2.4, pp. 66-102. Own calculations.

Second, although the share in national wealth held by the “core” rich—a tiny group within the economic elite in which Ukraine’s leading oligarchs are well represented—also declined, from just over 7% in 2013, at the end of the

Yanukovych era, to 6% in 2017, almost four years into the Poroshenko presidency, and although the mean relative wealth of the group fell too (shown by the downward-sloping dashed black line in Figure 4.11 above), this mainly reflected a steep fall in share at the very top of the wealth-holding distribution.

In contrast, the median value, as well as the 25th percentile and the 75th percentile—the floor and ceiling of the interquartile range (IQR) as the representative central body of the distribution—all climbed a little. This is represented in the chart below by the upward-sloping solid grey lines, indicating a widening of the IQR between 2013 and 2017. In other words, the main hit to material resource power in this oligarch-dominated group was at the top end, while for the central representative body of the group, it tended to rise.

Third, in times of trouble, such as a changeover in the faction of the elite that comes to the fore politically, we might expect to see not only a rise in capital flight and outward investment, as wealth-holders attempt to protect their financial assets from predation of currently politically successful network rivals, but also, on the issue of immovable business properties such as factories or retail complexes, the proliferation of business defence measures, including greater efforts to obscure business ownership and performance, so reducing the level of business wealth that the compositors of the rich list are able to record. This is likely to have been one reason why observable business wealth fell more steeply under Yanukovych than following his departure.

A fourth, very important reason to doubt that the material political influence of the Ukrainian oligarchs declined in the wake of the Euromaidan revolution is that domestic business wealth of the Ukrainian super-rich is likely to be only a portion, and possibly a small portion, of the total wealth owned by them, with some volume of their total assets (financial and physical) held overseas, an unknown proportion of it in offshore bank accounts. One way of tracking this over time is to examine the country's capital outflows, especially its illicit capital outflows.

Going by the US dollar estimates from Global Financial Integrity, a US think-tank, which are based on trade invoices and balance-of-payments data, illicit outflows from Ukraine were equal to about 10% of Ukraine's GDP annually in the Yanukovych era, or US$67bn cumulatively in 2010-13 (Kar and Spanjers, 2015, p. 33).

On the measurement of accumulated illicit capital flows globally, the research of Gabriel Zucman leads the field. In his book, Zucman traces the origin of Swiss tax havens to the rise in demand for tax evasion services among the very rich in Europe following the creation of welfare and pensions programmes in the wake of the first world war (Zucman, 2015, pp. 8-9). To investigate the scale of financial assets held in contemporary tax havens globally, he takes as a starting point a marked discrepancy in the international investment position at the global level—that is, recorded foreign liabilities of all countries tend to be larger than total foreign assets. From this, using fairly laborious wealth-accounting techniques, he estimates global illicit offshore financial wealth at the start of 2014 at US$7.6trn, or around 8% of all household financial wealth (Zucman, 2015, pp. 35-37). He estimates the tax loss on this for governments around the world at US$190bn in 2014 (pp. 47-50). Building on this approach, a later study estimates the hidden wealth of private individuals in 2015 at the equivalent of more than 10% of global GDP, rising to 50% of GDP in the case of Russia (Alvaredo et al, 2018, pp. 263-264).

From these calculations, it is possible to produce a rough estimate of the stock of illicit offshore wealth held by the Ukrainian rich in 2013, on the eve of the Euromaidan revolution. As a lower-end estimate, based on the global average level of 10% of GDP, this comes to offshore financial wealth of US$18bn. A higher-end estimate, based on the Piketty team's 50%-of-GDP estimate for Russia, produces a figure of offshore Ukrainian financial assets in 2013 of US$90bn. That year, Focus-100 business wealth (of US$69bn) was equal to about 11% of Ukraine's national wealth. On top of this, the lower-end estimate of offshore wealth would add 3 percentage points of "material resource power", taking the total to the equivalent of 14% of Ukrainian national wealth. The upper estimate raises the figure more substantially, by 14 percentage points, to the equivalent of 25% of national wealth.

But which of these estimates is more plausible? I would opt for the higher one, for two reasons, based on the GFI data. The first is the GFI's estimate of accumulated illicit outflows from Ukraine in 2004-13, of US$117bn. This is above my high-end estimate, but it can probably be assumed that a significant portion of the total sent abroad will have been recycled back into Ukraine periodically—for example, around election times. A second factor supporting the upper estimate is a comparison of the illicit outflow data for Ukraine and Russia to their respective GDP data. Although total estimated illicit capital outflows are significantly larger for Russia than for Ukraine, at over US$1trn in 2004-13, on average, its annual outflows come to 7% of the value its annual output, whereas in Ukraine's case, the figure is 8.3%. That is, outflows from Ukraine over the same period are likely to have been at least as high as those for Russia, relative to the size of its economic output. Cumulatively, then, for Ukraine these outflows are likely to sum to a similar size of its GDP as for Russia—that is, closer to 50% of GDP than to 10%.

Whatever the size of this stock of illicit financial wealth held by Ukrainians abroad in 2013, it will have been expanded by a step-up in capital outflows in response to the overlapping political, geo-political and macroeconomic crises of 2014-15.

More significantly for the question at hand, the local-currency material power of any foreign wealth held abroad in foreign currency will have been greatly amplified by the drastic depreciation of the hryvnya to the US dollar from February 2014, boosting its scale relative to shrinking Ukrainian national wealth, measured in US dollars. This implies that Ukrainian oligarchs' total material resource power in relation to Ukrainian society may not have fallen much or at all after Euromaidan.

Although between 2010 and 2017 domestic business wealth halved as a share of national wealth, therefore, the local-currency material power of illicit financial assets abroad will have been amplified by exchange-rate effects. This is shown in Figure 4.12 below.

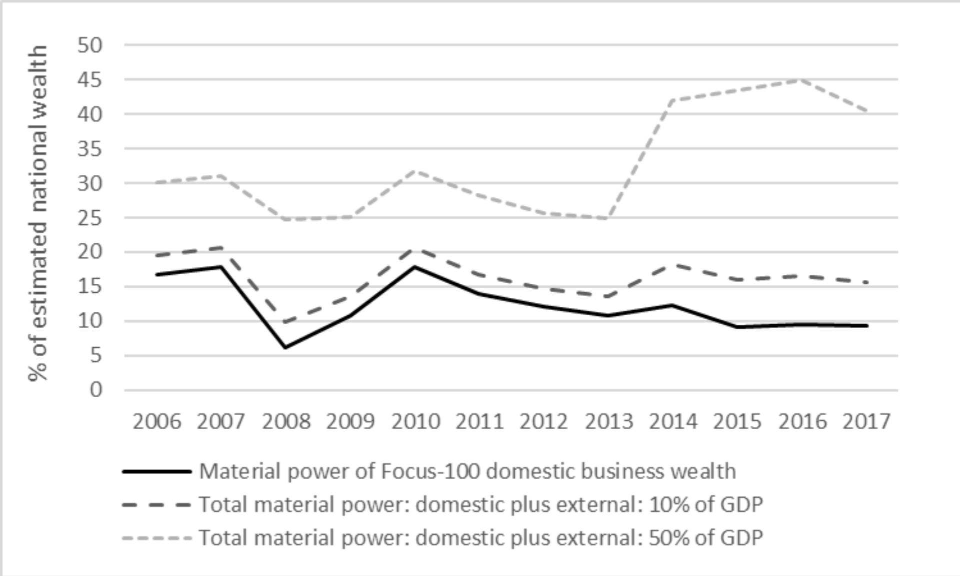


Figure 4.12: Dynamics of domestic & illicit external material resource power of the Ukrainian economic elite, 2006-17. Source: Focus.ua. The Focus Ratings archive for 2006-17 data (published the following year) is available at: https://focus.ua/rating/archive. [Accessed September 27th 2019.] Own calculations.

At the lower estimate of foreign-held financial wealth in 2013, of 10% of GDP, total material resource power rises above 15% of Ukrainian national wealth from 2014; at the higher estimate of foreign-held wealth, it rises to 40-45% of Ukrainian national wealth. This further underscores the crucial role of the legal and financial infrastructure of the international “wealth management” industry in the process of reproduction of the Ukrainian oligarchy as a political economy model, acting as a store for the material power of very rich political actors.

A final reason for believing that the material basis for the political influence of oligarchs probably did not decline following the Euromaidan events, despite the fall in the value of their assets in Ukraine, is more theoretical and sociological. This is that wealth itself is a *potential* social and political power, realised, as Winters suggests, only by way of a specific institutional setting. What, then, is material resource power, or the power of highly concentrated wealth, considered in this light? It is the capacity to tilt the structure of incentives, of punishment and reward, that others face so that their interests align with yours, placing their skills and capacities in the service of your interests.

Moreover, although wealth is a potential resource power with a strong quantitative dimension—that is, the more you have of it, the more, and perhaps better-quality, professional and coercive services you are able to hire—the relation of wealth to political power is not a straightforwardly quantitative one, since its realisation must be mediated through the practices of institutional actors, sometimes in co-operation, sometimes in competition, so that strategy, tactics and contingency must come in to play, making intended political outcomes less than fully certain.

In the case of modern Ukraine, this chiefly means that the power of wealth is realised (and replenished) primarily through business-political networks. These networks developed originally out of the late Soviet regional nomenklatura networks, which had formed somewhat distinct identities through the process of competition for the top party and government posts (Minakov, 2019, p. 226-227). On this basis, the post-communist regional business-political networks, as hierarchical organisations of personal connection and loyalty, were recast in the course of the struggles with rival forms of elite organisation during the 1990s, winning out over them to form a lasting, though evolving institutional relation to presidential power particular (Minakov, 2019, pp. 229-230). It is this set up, as accounted in the previous chapter, that, through its flexibility and adaptability, has remained the dominant political economy structure in post-communist Ukraine ever since. Despite initial setbacks for some of the previously "ruling" business-political networks in the early period after the Euromaidan revolution, most of the main ones remained intact, so that their relationship with one another and with the holders of formal positional state authority both continued to inform, and to be shaped by, subsequent political and economic developments—points that it will be the task of subsequent chapters to show. Specifically, following this investigation of the dynamics of concentrated wealth and its broad relation to political power in modern Ukraine, it is time to look in more detail at the role of wealth as a mode of achieving political influence by way of an examination of patterns of voting in the Verkhovna Rada, the Ukrainian parliament, and what this reveals about its role in the reproduction of the country's political economy regime more widely.

Chapter Five. The Ukrainian oligarchy in action, transforming wealth into political influence: the interaction of formal factional with sub- and cross-factional voting patterns on "institutional prosperity" bills in the Verkhovna Rada, 2014-17

A. Preliminaries

I. Introduction and aims

i) The material mode of political influence of the Yanukovych era…

In 2016 a series of articles appeared in the Ukrainian press offering a glimpse into the operation of a wide-ranging and expensive system of political payments run by the Party of Regions (PoR), the political organisation of Viktor Yanukovych, in the years leading up to and during his presidency in 2010-14. Originating in the "black ledger" (off-book accounts) of Yanukovych and his circle, the documents that these articles are based on had been handed to the National Anti-Corruption Bureau of Ukraine (NABU) by Viktor Trepak, a former deputy head of the Ukrainian Security Service (SBU), allegedly in response to the blocking of his investigation into the financial crimes of the Yanukovych era (Kuznetsov, 2017; Sukhov, 2016; Tucker, 2016).

Supporting these accounts, in an interview from 2017 Taras Chornovil, who ran Yanukovych's presidential campaign in 2004, says that the PoR practice of "paying for deputies from other parliamentary factions to vote in legislative projects the party needed" began to be formalised and centralised from 2006. This was on the initiative of Borys Kolesnikov, a parliamentary deputy for the Opposition Bloc (OB) who is close to Rinat Akhmetov, arguably Ukraine's leading oligarch. This accounting function, says Chornovil, was taken over more narrowly by Yanukovych and his group following his victory in the 2010 presidential election (Kuznetsov, 2017).

According to the ledger, for the four years of the Yanukovych presidency, the PoR's illicit payments came to US$2bn, equal to US$500m per year (Tucker, 2016). This is a remarkably high figure for a country with an average annual nominal GDP in this period of around US$164bn (IMF, 2019b).

Reports concur on the key role of PoR political fixers in delivering large cash sums to journalists, judges, and electoral and local authority officials, in return for favourable coverage or decisions, as well as to a well-connected US political consultant, Paul Manafort. More to the point for the current investigation, the documents record the details of payments to a number of political parties—both allies and opponents of the PoR—as well as to individual people's deputies (MPs) in the Verkhovna Rada, the Ukrainian parliament. The "chief curators" in the process are identified by Sevgil Musayeva, the editor of *Ukrayinska Pravda*, an online news outlet with national reach, as Yevhen Genner, one-time head of the parliamentary budget committee, and Vitaliy Kalyuzhnyi, a PoR MP (Ukrainian Crisis Media Centre, 2016). As examples of the kinds of transactions involved, the ledgers record a PoR intermediary, one V.N. Slaba, receiving US$250,000 in December 2009 to pay to Yuriy Kostenko of Our Ukraine, the party of the then president, Viktor Yushchenko (the report does not say what the payment was for). A second entry records the allocation in April 2010 of US$500,000 to Kalyuzhnyi for payment to Inna Bohoslovska (Sukhov, 2016). The suggestion is that this last payment was in return for Bohoslovska's resignation from the PoR to stand as a candidate in the 2010 presidential election, with the aim of drawing votes away from Yuliya Tymoshenko, Yanukovych's main rival in the contest.

ii) … carried over into the post-Euromaidan period

One of the key demands to emerge from the Euromaidan protests of 2013/14 was for a break with just these kinds of corrupt procedures in public life. However, the revelation in 2018 of the WhatsApp texts of Oleksandr Onyshchenko, through an investigation by Hromadske TV's Slidstvo.info programme, demonstrates the continuation into the post-Euromaidan era of material means of political influence at the highest levels of Ukrainian public life.

The texts show Onyshchenko—at the time of the communications in 2015 a Rada deputy for People's Will (PW)—discussing the practicalities of buying votes in the Rada with deputies linked to Petro Poroshenko, who succeeded Yanukovych as Ukraine's elected head of state in the presidential contest of May 2014. Onyshchenko's mobile phone dialogues, in Russian, are peppered with short-hand code or slang words. One exchange from May 2015 is with Serhiy Berezenko, a faction leader in Poroshenko's eponymous party, the Petro Poroshenko Bloc (PPB). It relates to attempts to secure the appointment of Oleksiy Malovatskyi, who had worked as a lawyer for Poroshenko during his presidential campaign, to the High Council of Justice, which deals with staffing the judiciary. In the text, Onyshchenko seems to be arranging a deal to buy the voting support of Fatherland deputies on the issue, in exchange for cash. He reports that he has spoken with "Y.V." (Yuliya Vladimirovna Tymoshenko, the leader of the Fatherland party, then still part of the governing coalition), and relays that she awaits the "documents" (said to be code for an illicit monetary fee) the following day. In another exchange on an unspecified vote, Ihor Kononenko, a close business associate of Poroshenko's since their army days, appears to signal his readiness to pay "the girl" (again, Tymoshenko) US$1m (Sukhov, 2018; Slidstvo, 2018).

These text dialogues implicate key Poroshenko lieutenants and cast Tymoshenko in a poor light. They also point to a continuity in informal political practices between the pre- and post-Euromaidan parliaments. This picture of continuity in the informal, material means of political influence between Rada convocations will provide some context for interpretation of the results of the analysis of voting patterns on institutional "prosperity" laws in the Rada later in the chapter, as well as informing the overall conclusion of the chapter on the way the Rada operates within the Ukrainian political system more broadly.

At the same time, leaks to the press concerning illicit political practices, whether undertaken by the associates of presidents Yanukovych or Poroshenko, cannot be taken at face value. For instance, it is alleged that the selective leak of information from Yanukovych's "black ledgers" shows one oligarchic group (that of Dmytro Firtash and Serhiy Lyovochkin) attempting to undermine another (that of Rinat Akhmetov), since the leakers were careful not to expose the names of their own associates (Kuznetsov, 2017). Using Winters' terminology, this could be read as a concrete, routine example of "lateral" competition between oligarchs (Winters, 2011).

iii) Focus of the chapter

As recounted in the literature review, the political means of influence of the Ukrainian oligarchs are numerous and include election funding, network payments within the state apparatus, domination of the media, as well as the hiring of private armed force. Of these, I have chosen to focus on the second (payments within the state apparatus), in part because it is an under-researched channel of influence. That is, it is a common assumption in the academic literature on Ukrainian politics that the practice of making payments to individual deputies is used both to protect oligarchs from legislation that they see as impinging on their business interests and to make way for the kind of extractive economic schemes from which their wealth is replenished (Dabrowski, 2017b). Concrete, systematic evidence for this is harder to come by, however.

The focus of this chapter will therefore be on tracing patterns of voting in the Rada, especially of deputies identified as belonging to the sphere of influence of the "old" oligarch cross-factional groups. The aim is to investigate a key means by which oligarchs have maintained influence after the Euromaidan, in this way developing an answer to the research question for this chapter, which asks whether voting patterns in the Rada in 2014-17 support the idea that the politically active heads of leading business-political networks continue to use their wealth to influence economic policy outcomes in their favour.

A key conclusion to the chapter is that, although evidence of a direct relationship of oligarchs' financial influence and the blocking of economic legislation turned out to be less systematic than envisaged, this result may be in line with other key findings of the chapter on the way the operation of the oligarchy as an elite system of rule is expressed in the Rada—that is, as a certain looseness or fuzziness in its internal organisational forms. The loose organisational structures of (usually not very ideological) parties and formal parliamentary factions, shot through with sub- and cross-factional formations, are not an accidental feature of its political operations, but a characteristic one that expresses its distinctive role in the operation of politics within the oligarchy as a whole.

In this context, I suggest, oligarchs' control of votes through material means is a way of securing a seat at the negotiating table with leaders of other business-political networks in the broader contest for position and rents. The flexible mode of operation of the Rada is shown in a striking way by the break of factional voting patterns in the legislature between the second administration of Arseniy Yatsenyuk and that of Volodymyr Hroysman. The significance of this, I argue, is that it indicates the full recreation of the oligarchy as a transactional relation between successful politicians, state officials and most of the main big business groups.

The choice and positioning of the topic of Rada voting within my study is informed both by the notion of the primacy of political institutions, taken from the "conjoined theory" set out in Chapter Two, and by the cyclical "currency flow" scheme of institutional reproduction with which the study begins and ends. The application to legislative politics of wealth as a power resource gives its holders a position from which they may negotiate not only on current policy outcomes, but also on the operation of the informal rules of economic practice through which their power resource, wealth, is replenished. Specifically, my research suggests that the re-opening of opportunities for the operation of elite rent-extraction schemes, following the general crisis of 2014-15, when such opportunities seemed to become more restricted, may be seen as part of a transactional exchange, in return for an increased supply of legislative votes from opposition and cross-factional deputies from 2016, following the disintegration of the governing five-party coalition in parliament.

<u>iv) Why the Rada?</u>

Between them, the three governments in place between late February 2014 and December 2017 instituted probably the most extensive range of economic, administrative and institutional reforms undertaken so far in post-Soviet Ukraine. Ivan Miklos pitches it in a way that would ring true for many. "Progress is real and significant," he writes, "but neither sufficient nor irreversible" (Miklos, 2019a, p. 8). In particular, I would argue, experienced political practitioners have managed to pursue reform without doing fundamental damage to the institutional "essentials" of the old oligarchic system.

The reason for choosing the Rada as a key institution for examination, therefore, is because it is one such “essential” institution within the state. Specifically, the Rada performs the function of a venue for elite alliance- and deal-making, a place in which formal and informal politics intertwine, making it one of the state institutional sites on which the oligarchy—both as an institutional relation between the business, political and state elites, and as a forum for transactional deal-making—is realised. This is why Serhiy Leshchenko, an investigative reporter who became a Rada deputy following the parliamentary election of October 2014, describes the institution as “Europe’s biggest business club” (Leshchenko, 2016). In this sense, it can be considered as performing some of the co-ordination and transactional functions of Lucky Luciano’s “Mafia commissions” in Winters’ account of oligarchy (Winters, 2011, p. 69).

Moreover, the means that I use—of the local investigations of Rada deputies’ links to the networks of leading oligarchs, alongside the factional voting patterns for political economy laws—render the assumption on the political operation of material resource power in the Rada both observable and testable (an assumed relationship between the two is tested in the third analysis of this chapter). These advantages may not be so readily available for other sub-institutions instrumental in the reproduction of Ukraine’s political economy regime.

On the one hand, the judiciary might also be considered as one such “essential” state institution, since, conceived broadly to include the “gatekeeping” role of the procurator general, it protects the positional and material power of the elite from the spectre of the even-handed application of the law. At the same time, it is one of the terrains on which the struggle of elite networks against one another takes place. Although we will see examples of this in the analyses of Chapter Six, which examines elite economic enrichment schemes in the energy sector, in this chapter I have restricted my investigation to the Rada in order to achieve the necessary degree of depth in the research.

II. The Verkhovna Rada in Ukraine’s political system

i) Introduction

In order to understand the potential value of attempting to influence voting outcomes in the Rada, it will be helpful to know something about Ukraine’s modern political system, the role of the Rada within it, as well as the functions of the main bodies within the Rada. The aim is to establish the position and role of the Rada within the Ukrainian state at the onset of the post-Euromaidan era, and to address the relation of the formal and informal dimensions of political practice within it, as a large part of the original research in this chapter will focus on the interlinked patterns of voting of formal, sub- and cross-factional Rada groups.

The distinction between formal and informal politics is a crucial one for understanding the political economy of contemporary Ukraine, as well as of former Soviet space more widely. In Ukraine’s case, this is because, in the course of its first post-Soviet decade, the delayed and incomplete process of state-building—itself reflecting the institutional and personnel inheritance from the Soviet period—produced “a low degree of differentiation between the political and economic domains” and “the dominance of personal networks over legal rules” (Zimmer, 2006, p. 276). Neglect of these phenomena has often left some kinds of Western scholarship unable to describe the societies of post-communist eastern Europe accurately, in their own terms, according to a new framework of analysis proposed by Bálint Magyar and Bálint Madlovics (2020, pp. 8-9). Whereas formal politics deals with the officially articulated basic principles and procedures of public life—often written down as a constitution, for example—informality refers to patterns of unwritten, customary behavioural norms or rules, known implicitly to insiders, and of the personal, interest-based political actions informed by these rules that, happening behind the scenes, describe “how things really work” (Meyer, 2006, p. 14). On the relation between the two, Kerstin Zimmer argues that, rather than conceiving of them proceeding alongside or in conflict with one another, in practice the line between formal and informal political rules is blurred, as they “are not neatly separated and do not refer to different spheres of influence” (Zimmer, 2006, p. 274).

ii) Formal politics: a changing institutional framework

The Ukrainian constitution specifies the single chamber, 450-seat Verkhovna Rada (Supreme Council) as the sole legislative body of the Ukrainian state. However, periodic change in the form of the government and of electoral rules has been a feature of Ukraine's political life since independence.[16]

Ukraine's constitutions

Ukraine's first post-Soviet constitution was agreed only in mid-1995, and approved by the Rada a year later. Despite some amendments, linked especially to the country's separation from the Soviet Union, this means that before 1996, the 1978 constitution of Soviet Ukraine, with its formal (but not factual) emphasis on the supremacy of the Rada, remained in place (Whitmore, 2004, p. 22, 32). In the independence era, the 1996 constitution has twice switched places with a later document, the 2004 constitution, introduced after the Orange Revolution. A persistent problem from the absence of a clear delineation of roles, exacerbated by this constitutional alternation, is that "in the absence of clear rules governing executive-legislative relations, the two institutional bodies engaged in turf wars over exclusive prerogatives, appointment powers, and policy priorities, which resulted in frequent political crisis" (Kudelia and Kazianov, 2021, p. 14).

The 1996 constitution introduced a semi-presidential system of governance. This is a "dual executive" mode of rule, in which "a popularly elected fixed-term president exists alongside a prime minister and cabinet which are also responsible to parliament" (Whitmore, 2004, p. 6). There are two main kinds of semi-presidentialism, president-parliamentary and premier-presidential, offering more or less power to the head of state within the system of joint rule. Leonid Kuchma, independent Ukraine's second president, managed during his first term in 1994-99 to secure the first version, with stronger presidential powers.

Switch to the 2004 constitution as part of an intra-elite deal. Two parliamentary elections (in 1998 and 2002) and two presidential elections (in 1999 and 2004) took place under the auspices of the 1996 constitution (see

[16] Table 5.1 below shows the alignments of these two sets of formal political rules with one another, and with presidential and legislative elections, in the post-communist era.

Table 5.1 below). A significant overhaul was only agreed in December 2004 as a key element in negotiations between the two sides in the Orange Revolution. Preparations for constitutional change had been under way before the 2004 presidential contest, however. Confronted with the prospect of a win for Victor Yushchenko, the opposition leader, “Kuchma initiated another round of constitutional revisions, now meant to transfer most of the president’s powers over cabinet formation to parliament” (Kudelia and Kazianov, 2021, p. 16). Kuchma’s motivation, these authors suggest, was not just to retain for his own group key positions in the executive through their slight majority in the legislature, but also to protect himself personally from investigations over past serious wrongdoings, including involvement in the murder of a journalist, Georgiy Gongadze. For the Orange camp, agreement on a new constitution may have been a way of avoiding violence and containing threats of “separatism” (Wilson, 2015, p. 321).

Implemented only at the start of 2006, the 2004 constitution reduced the powers of the president and enhanced those of parliament. For example, in the newer document, the bulk of ministerial appointments became the prerogative of the prime minister. Most importantly, under the 2004 constitution, the prime minister is selected and dismissed by parliament, rather than by the president. (Zimmer, 2006, p. 280; Europa, 2019, pp. 542-543).

After his election as president in early 2010, Yanukovych was able by October to pressure the Constitutional Court into reinstating the 1996 constitution (Wilson, 2015, p. 344). By the end of February 2014, however, political fortunes had turned again and the Rada voted to restore to the 2004 constitution (Wilson, 2014, p. 92), so that the formal capacities of the president and prime minister were again more evenly distributed. The practical political significance of the kind of constitution in place—a key theme in the literature on the politics of modern Ukraine—is that the precise distribution of formal executive powers signals to key players the kind of politics they may expect to ensue.

Rules for elections to the Verkhovna Rada

Likewise, the system used to elect deputies to the Rada has been altered several times since independence. Starting in the immediate post-Soviet period with a territorial “single-mandate” system, ahead of the 1998 general election Kuchma initiated a switch to a “mixed” system, whereby half the seats in the legislature (225) continued to be chosen by single mandates, but the other half were allocated by a proportional system, according to placement on each party’s list of ranked candidates. In the single-mandate system, parliamentary deputies are elected by simple majority in single-seat constituencies. Under Ukraine’s proportional system, the country represents a single constituency, with seats distributed to parties according to the relative size of their vote, so long as they pass a 5% threshold. For the Rada elections of 2006 and 2007, a pure proportional system was in operation. In 2012, during the Yanukovych presidency, the mixed system was restored. This allowed the PoR to maintain its parliamentary dominance in the election of that October via the single-mandate system, amid falling support in the polls (Fedorenko et al, 2016, p. 611). By affecting how candidates are elected to parliament, the electoral rules in part determine which candidates are elected. This helps to explain why these rules have themselves been the subject of such regular political contestation.

The formal political framework in 2014 vs 2012

Moving from the more presidential system in place for most of the Yanukovych era, this means that a more balanced version of the “dual executive” system of government was in operation from late February 2014, limiting the range of formal presidential powers available to Petro Poroshenko after his election victory in May. Attempts post-Euromaidan to switch back to a proportional electoral system were unsuccessful until 2015, so that the October 2014 parliamentary elections took place under the “mixed” system reintroduced in 2012. A common criticism of the single-mandate scheme is that it is more susceptible to manipulation at the local level, acting as a link between local and national elites (Andrusiv et al, 2018, p. 64), and weakening the party system by making single-mandate candidates dependent on financiers rather than parties (Dabrowski, 2017b). Conversely, an argument in favour of the proportional party list is that it helps to institutionalise party politics, thereby better connecting national political representatives to the popular will (Fedorenko et al, 2016, p. 611).

Table 5.1: Ukraine's constitutions & Rada electoral rules, with presidential & parliamentary elections, 1990-2014

Constitution in place	Presidential election & winner	Rada election laws in place	Rada election
1978 constitution of Soviet Ukraine		**Single** mandate constituencies, run on a majority formula	Mar 1990
	Dec 1991: Kravchuk		
			Mar/Apr 1994
	Jul 1994: Kuchma I		
1996 constitution: semi-presidential: president-parliamentary		**Mixed** single mandate (225 seats) & proportional/ party list (225 seats), introduced in 1997	Mar 1998
	Nov 1999: Kuchma II		
			Mar 2002
	2004/05: Yushchenko, following Orange Revolution		
2004 constitution, applied in 2006: semi-presidential: premier-presidential		**Proportional**/ party-list voting system	Mar 2006
			Sep 2007
	Jan-Feb 2010: Yanukovych		
2010: 2004 constitution repealed: **1996** president-parliamentary constitution restored: president-parliamentary		**Mixed** proportional/ party list & single mandate reintroduced by Yanukovych in time for the 2012 Rada elections	Oct 2012
2014: **2004** constitition restored: premier-presidential	May 2014: Poroshenko, following Euromaidan		
			Oct 2014

Sources: Whitmore (2004); Zimmer (2006); Andrew Wilson, UCL SSEES slides for the course, "The Making of Modern Ukraine", courtesy of the author; Europa (2019).

This alignment in 2014 of a more “open” premier-presidential constitution with the “mixed” system for electing deputies to the Rada has been unique in the independence period, signalling relatively weak presidential powers (as under Yushchenko after 2006), but with retention of the single mandate perhaps favouring a return to the legislature of experienced representatives of informal networks, even amid high rate of turnover in people’s deputies. This unique combination of formal political rules is indicated in Table 5.1 above, which presents a timeline for the changes in constitutions and electoral law in Ukraine, and the presidential and parliamentary elections conducted under them, since 1990.

iii) Informal politics in action

The role of the constitution in particular has been central to recent theorisations of the dynamics of power in political systems such as Ukraine’s. While key informal actors, often at the head of powerful networks, are seen to dominate the political process—centrally, a struggle for the distribution of positions and rents (Zimmer, 2006, p. 285)—their political actions are structured by expectations about who ultimately will control formal rules and powers. This is a central theme of Henry Hale's general political sociology of post-Soviet space (Hale, 2015), whose approach has been taken up and elaborated on by other authors, including Heiko Pleines (2016a), Andreas Umland (2017), Yuriy Matsiyevsky (2018) and Sarah Whitmore (2019). In particular, interest has focused on the way in which constitutional change affects the behaviour of key informal actors, including the overlapping networks of business leaders, politicians and officials which I am referring to as "the oligarchy".

In countries with political cultures similar to those of Ukraine—variously described as either "neo-patrimonial" (Zimmer/ Matsiyevsky) or "patronal" (Hale)—the kind of constitution in place is characterised as encouraging the development of either unified or competing informal network "pyramids". These are hierarchical organisations of personal links that reach up to the "chief patron", who sits atop the formal structures of power. The chief patron is often the president, but could be the holder of another high public office. Neo-patrimonialism is a concept developed from two of the categories of political authority originally proposed by Max Weber, a German social theorist. Whereas patrimonialism can be described as traditional authority based on personal kinship ties, "rational-legal" authority is associated with the rise of administrative bureaucracy within the modern nation state (Giddens, 1971, pp. 156-160). The "neo" signifies a fusion or equilibrium of the two, "where the patrimonial logic in encrypted into the formal institutions" (Zimmer, 2006, p. 284). In contrast, patronalism, according to Hale, is a more general term, indicating the way in which neo-patrimonial polity is itself embedded in a society, the interlinks with which help to sustain it (Hale, 2015, p. 24).

For the enquiry of this chapter, the specific constitutional and electoral arrangements in place post-Euromaidan are important, therefore, because the form of the constitution affects the distribution of formal governmental powers. Not only does this set the position and powers of the Rada within the Ukrainian political system more broadly, but it also shapes the expectations of key political actors, thereby influencing the dynamics of alignment of formal and informal Rada factions, and so also voting outcomes. Meanwhile, the electoral rules in place in October 2014 conditioned how the members of the Rada for the eighth convocation were chosen—and therefore who was chosen, with likely ramifications for subsequent political developments.

III. Main internal organs of the Verkhovna Rada: factions and committees

A key distinction made in this chapter is between formal Rada factions on the one hand and sub- or cross-factional formations on the other, the composition of which can be fluid in the course of a parliamentary term. The dynamics of factional change in the seventh and eighth parliamentary convocations will be set out in due course. Addressed here is the role of the internal bodies of the Rada most relevant to this study, especially the factions system.

i) What are parliamentary factions?

Blocs, parties, factions and deputy groups are all terms used to refer to formal political groupings in the Verkhovna Rada. These tend to be treated as different kinds of organisation, ranging from the most to the least encompassing. Precisely how they differ, however, is harder to pin down. For instance, the Rada's official regulations (*rehlament*) mention parliamentary factions and groups, rather than political parties, as the main organising units for the activity of people’s deputies (Verkhovna Rada, 2010). This is again indicated by the stipulation that a political party may form only one faction in the legislature (Article 58.2). Even though parliamentary factions and groups are treated slightly differently in the document, deputy groups have the same rights as factions, and there seems to be no attempt to distinguish between them in terms of functions.

Tentatively, we might deduce some possible distinctions, with factions assumed to be based more around shared political criteria, and deputy groups on MPs' shared policy interests (such as security policy or budget issues). The first assumption is in line with the definition of factions, offered by Sarah Whitmore, as politically-based associations of deputies, which are supposed to be organised around a party, but need not be in practice (Whitmore, 2004, pp. 49-50). In an investigation of the operation of Poroshenko’s party in parliament after the 2014 general election, *Ukrayinska Pravda*, a Ukrainian-language news website, notes that deputy groups may be formed around MPs’ common policy or lobbying interests, or used simply as a means of party management (Romanyuk and Kravets, 2016a).

In local usage, the dividing line between the different categories can appear somewhat permeable or blurred, however. So, for example, according to the official website of the Rada, the leading parliamentary parties of the seventh and eighth convocations (eg the Party of Regions/PoR and the Petro Poroshenko Bloc/PPB) are listed as factions, whereas others, smaller and of more recent creation, are listed as groups (eg Economic Development, which after the 2014 election was transformed into Renaissance). This organisational ambiguity or fuzziness, I suggest in the chapter conclusion, is not an accidental feature, but a necessary one, expressive of the mode of politics in operation and of the Rada's role in Ukraine political economy regime more broadly.

ii) Factions rose to dominance in the Rada from the late 1990s but remain institutionally weak

In her book, Sarah Whitmore outlines the constitutive role of the Rada in the formation of the post-Soviet Ukrainian state—that is, by laying its legal foundation—and the slow process of its institutionalisation in a wider political context in the course of the 1990s and early 2000s (Whitmore, 2004, p. 31). By institutionalisation, she means the creation and observation of procedural norms that enhance organisational coherence and autonomy (Whitmore, 2004, pp. 10-11, p. 179).

In particular, Whitmore details the emergence of parliamentary standing committees and political factions as the main organisational subdivisions for the allocation of parliamentary work. Parliamentary committees deal with the preparation, review and implementation of specialist legislation. In the first decade of independence, the author argues, committees became more representative of the composition of parliament, began to operate as settings for legislative debate and saw their authority grow in line with their growing expertise (Whitmore, 2004, p. 185).

By 2003, however, parliamentary factions had "assumed prime position in structuring and organising the Verkhovna Rada…were the dominant force inside parliament influencing deputies' voting decisions and articulated alternative policy proposals" (Whitmore, 2004, p. 185). Despite their predominant position in the Rada after 1998, however, Whitmore concludes that the institutionalisation of the faction system had occurred patchily and in spurts, so that factions "remained fluid and mutable units, unable to co-operate beyond ad hoc agreements" (Whitmore, 2004, p. 185). The continuing institutional weakness of the Rada was shown most tellingly by the routine violation of the legislature's own rules, alongside the survival of "customs" of operational behaviour outside of this formal framework—in other words, through the enduring predominance of informal politics. In turn, she argues, this has hindered the ability of the Rada as a whole to act independently of the executive branch of government and to hold it to account (Whitmore, 2004, p. 92, p. 185).

iii) The weakness of the Ukrainian party system

One way of understanding the predominance of the factional system in the Ukrainian legislature is through a grasp of the persistent weakness of the country's political party system. On this, Fedorenko et al argue that, while stronger political competition has been achieved since the fall of Yanukovych, Ukraine's party system remained weakly institutionalised (Fedorenko et al, 2016, p. 628). Over the long term, this is seen in the large number of parliamentary and extra-parliamentary parties, as well as the high turnover of them. On this account, the factors behind the underinstitutionalisation of the Ukrainian party system include frequent changes in electoral law (as outlined above); the tendency for parties to be used as vehicles for leading political personalities, after whom they are often named; and, on the "demand" side, long-term inconsistency in voter preferences.

The Ukrainian Institute for the Future (UIF), a local think-tank, goes further. It suggests that three kinds of relations between Rada deputies and the heads of large financial industrial groups (FIGs) help to explain the formation of the cross-factional groupings that run through the Rada as an institution. The first is of deputies on the payroll of oligarchs whose place on a party list has been paid for by them. The second is of deputies who made it into the legislature independently, but who have since entered into mutually beneficial relations with an oligarch. The third is of deputies who run their own businesses, albeit of a much smaller scale than oligarchs' FIGs, and are in need of protection

(Andrusiv et al, 2018, p. 8). In this context, the authors suggest, alongside the personality-based political vehicles already mentioned, another kind of organisation flourishes, which they call “leader-type” parties (*partiyi vozhdystskoho typu*; Andrusiv et al, 2018, p. 64). Rather than aiming to represent voters, the raison d'être of these organisations is to sell themselves as a service provider to the very rich—in this case, by providing legislative votes. This reading ties in well with the theory that oligarchs’ politics tends to focus on the acquisition of wealth-defence services, the range and effectiveness of which vary depending on the political-institutional environment. Among the political organisations named as belonging to this group are Oleh Lyashko’s Radicals, Fatherland under Yuliya Tymoshenko and even Svoboda (Freedom), which otherwise appears as a quite authentic ideologically nationalist outfit. The report concludes that this crosscutting of informal political groupings through and within formal ones is a key impediment to the development of a properly functioning party system, arguing that: “Ukraine is dominated not by parties, but by projects designed to seize and hold power for a certain time” (Andrusiv et al, 2018, p. 64). “If the backbone of any faction consists of lobbyists for the interests of individual financial and industrial groups,” they add, “there is no chance of any ideology” (Andrusiv et al, 2018, p. 64). The tendency for Ukrainian political parties to lack a clear ideological platform is noted by all of the above authors, too, while the stress on political organisation based on networks of personal links rather than organisations cohering around a shared political world view is one of the features of Hale’s account of a patronal political culture. It further helps to explain the parties’ institutional infirmity, but has broader implications for the political system. This is because it is said to hinder the establishment of an exchange process vital for the development and maintenance of socio-political cohesion and stability in a democratic polity, whereby competitive parties act as a medium for representing divergent social interests in the political sphere, so inculcating trust in political institutions and strengthening their legitimacy (Fedorenko et al, 2016, p. 615). In a later study of the Ukrainian legislature, examining the significance and evolution of performative protest in the Rada chamber, Whitmore ties both the mode of operation of politics in the Rada and the character of the party system to the “patronal environment" of Ukrainian politics more broadly. She writes that

“Informal networks straddling FIGS, state bureaucrats and local political machines shaped not just the broader regime trajectory, but also the structure of the party system, the Rada’s composition and the nature of interactions within parliament (2019, p. 1,481).

IV. Data sources, preparation of data sets and methods

i) Data sources

The main data set analysed in this chapter is comprised of the voting results across formal and cross-factional parliamentary formations on 23 laws associated in modern institutional economics with the creation of the conditions for general economic prosperity. The chief sources for this information are the official website of the Verkhovna Rada, as well as the Ukrainian business and political press. The methods are again descriptive and inferential statistics, combined with document analysis to flesh out, and so help to explain, the statistical results.

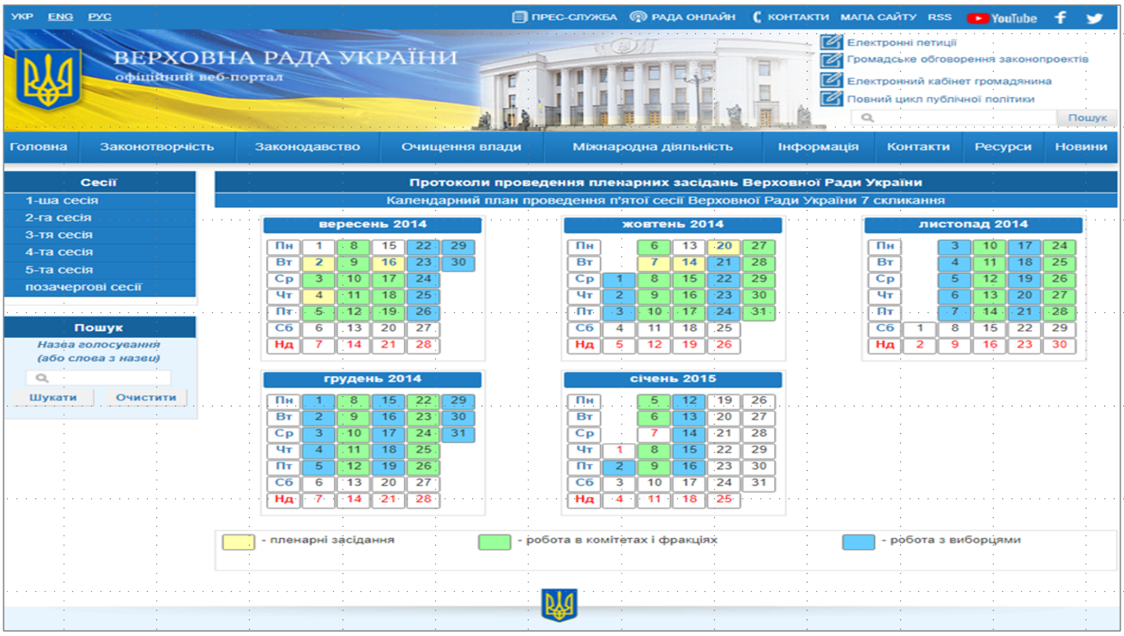
Sources for legislative roll-call results

The Rada maintains an extensive online archive, in Ukrainian, of its plenary meetings (*plenarni zasidannya* marked in yellow in Infographic 5.1 below), stretching back to 1990. The days marked on the calendar in other colours are assigned for deputies’ work in parliamentary committees or political factions (green) or with voters (blue).

From here, it is possible to search through the laws of each plenary meeting by convocation and session. “Convocation” (*sklykannya*) is the name for the whole parliamentary term following a general election. As elsewhere in the world, Rada terms are divided into working sessions. Infographic 5.1 below shows the information for the fifth session of the seventh convocation, covering the period from September 2014 up to January 2015. The focus of this chapter is on the last two sessions of this convocation (February-November 2014) following the Euromaidan, and the first seven (out of ten) sessions of the eighth convocation (December 2014-December 2017), the parliament formed following a pre-term election in late October 2014.

Although some of the analysis of this chapter aims to demonstrate institutional continuity between the periods before and after the downfall of Yanukovych, my reason for focusing here on legislative patterns of voting after the Euromaidan is that the central interest of my dissertation is to trace the reconstitutive process of the institutional cycle, rather than the phase of institutional disruption itself.

Infographic 5.1: Calendar page of the working records of the Verkhovna Rada, session five of the 7th convocation, Sep 2014-Jan 2015



Source: Verkhovna Rada. ARKHIV ZA SKLYKANNYAMY (online archive of legislative votes). Available: https://iportal.rada.gov.ua/. [Accessed September 13th 2021.]

For any law of interest for which the identifying number has been discovered in the archive, it is also possible to perform an in-site search that displays the progress of the law though all of its stages. This is useful for locating the final reading of a bill and identifying its fate—that is, whether it was accepted (after which it must go to the president for promulgation) or rejected.

Sources of readouts for individual voting results and deputies' formal Rada factions

For each bill, the Rada archive reports voting roll-calls in two ways, by deputy (in alphabetical order) and by formal parliamentary faction. It provides this information in both table and graphical form. From these tables, it is possible to work out the factional voting patterns as they were recorded at the time of each vote, and from this, the dynamics of the formal parliamentary factions over time. For this study, I transcribed into two data sets the composition of these factions at three points in time during the final stages of the seventh convocation (from the end of February 2014), and at four points over a span of the eighth convocation (from December 2014 to December 2017).

Sources for informal or cross-factional parliamentary groupings

Informal Rada associations of MPs operate within, as well as across, the formal ones. These sub- and cross-factional formations are recognised among specialist local journalists to be headed either by a prominent political personality within one of the formal factions or to fall within the orbit of one of the high-profile “old” oligarchs—to use Konończuk’s terminology (2016)—some of whom have been prominent in Ukrainian political life since the Kuchma era. These are wealthy figures who usually head extensive political networks based around large financial-industrial conglomerates. In the eighth convocation, there are at least six such “old” oligarch formations identifiable, made up of three large and three smaller deputy groupings. These are set out in Table 5.2 below. Among the larger groups, the one linked to Ihor Kolomoyskyi contains up to 17 MPs; that of Rinat Akhmetov, up to 20; and that headed by Dmytro Firtash, but including the MPs linked to his business associates Serhiy Lyovochkin and Yuriy Boyko, up to 25. The smaller groups, around Viktor Medvedchuk, Viktor Pinchuk and Vitaliy Khomutynnik, are linked to up to four deputies each. All of these figures have appeared either prominently, or at least occasionally, on the Focus rich list. Khomutynnik, the Renaissance faction leader, is perhaps the least recognisable name here, but is included because, according to media reports, in 2014 he was the richest Ukrainian MP, and became an independent player from during the period of Hroysman’s premiership (Chernyshev et al, 2017).

To take into account the assumed fluidity within cross-factional parliamentary groupings, I make use of two versions of the “old” oligarch groups, an earlier one and a later one. The “early” snapshot of the Rada’s cross-factional associations is taken from an account by Kristina Berdinskikh in *Novoye Vremya*, a Ukrainian Russian-language weekly, from May 2015 (Berdinskikh, 2015). The relevant information is reproduced in the fourth column of Table 5.2.

For a later period, I compiled a picture of the composition of cross-factional Rada formations mainly from a series of articles by Roman Romanyuk and

Roman Kravets published in *Ukrayinska Pravda*, a Ukrainian-language news website, between October 2016 and July 2018. (Romanyuk and Kravets, 2016a, 2016b, 2016c, 2017a, 2017b, 2017c, 2018). In these, the authors detail the genesis, composition and changing political alliances between many of the formal political factions and their cross-factional subcomponents. This information was checked and augmented using a long, multi-authored article (Chernyshev et al, 2017) on *Liga.net*, an independent online news outlet, which sets out the political influence and business interests of some of most high-profile “old” oligarchs, and names the Rada deputies thought to be aligned with them. Finally, the purported informal factional divisions for the later period were checked against the factional subgroups in the eighth convocation that were quantified (but not named) in a report by the UIF (Andrusiv et al, 2018). The results of this exercise are recorded in the fifth column of the table below.

The table shows a considerable, but not perfect, overlap of the deputies included in the earlier and later accounts of the cross-factional formations. There are 66 named Rada deputies identified as belonging to an “old” oligarch faction in the earlier cohort, and 53 in the later one, with the total number of deputies so identified in at least one list coming to 74.

This is a small portion of the total number of MPs sitting in the eighth convocation of the Rada, and may well be smaller than the actual number of those who were working in co-operation with the leaders of big business in this period. For instance, Table 5.2 lists 17 MPs as falling into Kolomoyskyi’s “orbit”, whereas the UIF report estimates this figure at between 23 and 27 (Andrusiv et al, 2018, p. 69). However, the table includes a reasonable number of cases with which to conduct a meaningful analysis of the interweaving voting patterns of formal and cross-factional Rada political groups.

Table 5.2: Deputies in the 8th convocation of the Verkhovna Rada by "old" oligarchic group & formal faction

	Deputy		Informal faction			Formal faction	
Number	Surname	Initials	Apr-May 2015	2016-17	2015-17	Apr 9th 2015	Jun 2nd 2016
1	Batenko	T.I.	Kolomoyskyi	Kolomoyskyi	Kolomoyskyi	PPB	No faction
2	Bereza	YU.M.	Kolomoyskyi	-	Kolomoyskyi	People's Front	People's Front
3	Bondar	V.V.	-	Kolomoyskyi	Kolomoyskyi	Renaissance	Renaissance
4	Herashchenko	A.YU.	Kolomoyskyi	-	Kolomoyskyi	People's Front	People's Front
5	Hyeller	YE.B.	Kolomoyskyi	Kolomoyskyi	Kolomoyskyi	Renaissance	Renaissance
6	Denysenko	A.S.	Kolomoyskyi	Kolomoyskyi	Kolomoyskyi	No faction	No faction
7	Didych	V.V.	Kolomoyskyi	Kolomoyskyi	Kolomoyskyi	No faction	No faction
8	Dubinin	O.I.	Kolomoyskyi	Kolomoyskyi	Kolomoyskyi	No faction	No faction
9	Kupriy	V.M.	Kolomoyskyi	Kolomoyskyi	Kolomoyskyi	No faction	No faction
10	Parasyuk	V.Z.	Kolomoyskyi	-	Kolomoyskyi	No faction	No faction
11	Savchenko	N.V.	-	Kolomoyskyi	Kolomoyskyi	Fatherland	Fatherland
12	Savchuk	YU.P.	-	Kolomoyskyi	Kolomoyskyi	People's Front	PPB
13	Semenchenko	S.I.	Kolomoyskyi	-	Kolomoyskyi	Samopomich	Samopomich
14	Filatov	B.A.	Kolomoyskyi	-	Kolomoyskyi	No faction	-
15	Shevchenko	O.L.	Kolomoyskyi	Kolomoyskyi	Kolomoyskyi	PPB	No faction
16	Shypko	A.F.	Kolomoyskyi	Kolomoyskyi	Kolomoyskyi	Renaissance	Renaissance
17	Yarosh	D.A.	Kolomoyskyi	-	Kolomoyskyi	No faction	No faction
18	Bakhteyeva	T.D.	Akhmetov	Akhmetov	Akhmetov	Opposition Bloc	Opposition Bloc
19	Bilyi	O.P.	Akhmetov	Akhmetov	Akhmetov	Opposition Bloc	Opposition Bloc
20	Vilkul	O.YU.	Akhmetov	Akhmetov	Akhmetov	Opposition Bloc	Opposition Bloc
21	Voropayev	YU.M.	Akhmetov	Akhmetov	Akhmetov	Opposition Bloc	Opposition Bloc
22	Halchenko	A.V.	Akhmetov	Akhmetov	Akhmetov	Opposition Bloc	Opposition Bloc
23	Husak	V.H.	Akhmetov	Akhmetov	Akhmetov	Opposition Bloc	Opposition Bloc
24	Dobkin	D.M.	Akhmetov	Akhmetov	Akhmetov	Opposition Bloc	Opposition Bloc
25	Dobkin	M.M.	Akhmetov	Akhmetov	Akhmetov	Opposition Bloc	Opposition Bloc
26	Dolzhenkov	O.V.	Akhmetov	Akhmetov	Akhmetov	Opposition Bloc	Opposition Bloc
27	Zvyahilskyi	YU.L.	Akhmetov	Akhmetov	Akhmetov	Opposition Bloc	Opposition Bloc
28	Kolyesnikov	D.V.	Akhmetov	Akhmetov	Akhmetov	Opposition Bloc	Opposition Bloc
29	Korolevska	N.YU.	Akhmetov	Akhmetov	Akhmetov	Opposition Bloc	Opposition Bloc
30	Martovytskyi	A.V.	Akhmetov	Akhmetov	Akhmetov	Opposition Bloc	Opposition Bloc
31	Moroko	YU.M.	Akhmetov	Akhmetov	Akhmetov	Opposition Bloc	Opposition Bloc
32	Novynskyi	V.V.	Akhmetov	Akhmetov	Akhmetov	Opposition Bloc	Opposition Bloc
33	Omelyanovych	D.S.	Akhmetov	Akhmetov	Akhmetov	Opposition Bloc	Opposition Bloc
34	Pavlov	K.YU.	Akhmetov	-	Akhmetov	Opposition Bloc	Opposition Bloc
35	Sazhko	S.M.	Akhmetov	Akhmetov	Akhmetov	Opposition Bloc	Opposition Bloc
36	Solod	YU.V.	Akhmetov	Akhmetov	Akhmetov	Opposition Bloc	Opposition Bloc
37	Shpenov	D.YU.	Akhmetov	Akhmetov	Akhmetov	Opposition Bloc	Opposition Bloc
38	Kozak	T.R.	Medvedchuk	Medvedchuk	Medvedchuk	Opposition Bloc	Opposition Bloc
39	Nimchenko	V.I.	Medvedchuk	Medvedchuk	Medvedchuk	Opposition Bloc	Opposition Bloc
40	Shurma	I.M.	Medvedchuk	-	Medvedchuk	Opposition Bloc	Opposition Bloc
41	Shufrych	N.I.	Medvedchuk	Medvedchuk	Medvedchuk	Opposition Bloc	Opposition Bloc
42	Bezbakh	YA.YA.	Pinchuk	-	Pinchuk	No faction	No faction
43	Byelkova	O.V.	Pinchuk	-	Pinchuk	PPB	PPB
44	Katser-Buchkovs'ka	N.V.	-	Pinchuk	Pinchuk	People's Front	People's Front
45	Klympush-Tsyntsadze	I.O.	Pinchuk	-	Pinchuk	PPB	-
46	Ostapchuk	V.M.	-	Khomutynnik	Khomutynnik	Renaissance	Renaissance
47	Pysarenko	V.V.	-	Khomutynnik	Khomutynnik	Renaissance	Renaissance
48	Svyatash	D.V.	-	Khomutynnik	Khomutynnik	Renaissance	Renaissance
49	Khomutynnik	V.YU.	Kolomoyskyi	Khomutynnik	Khomutynnik	Renaissance	Renaissance

Table continued overleaf…

Table 5.2: Deputies in the 8th convocation of the Verkhovna Rada by "old" oligarchic group & formal faction

	Deputy		Informal faction			Formal faction	
Number	**Surname**	**Initials**	**Apr-May 2015**	**2016-17**	**2015-17**	**Apr 9th 2015**	**Jun 2nd 2016**
50	Ahafonova	N.V.	Lyovochkin	-	FLB	PPB	PPB
51	Bakulin	YE.M.	Boyko	FLB	FLB	Opposition Bloc	Opposition Bloc
52	Bereza	B.YU.	Lyovochkin	-	FLB	No faction	No faction
53	Boyko	YU.A.	Boyko	FLB	FLB	Opposition Bloc	Opposition Bloc
54	Dunayev	S.V.	Boyko	FLB	FLB	Opposition Bloc	Opposition Bloc
55	Ioffe	YU.YA.	Boyko	FLB	FLB	Opposition Bloc	Opposition Bloc
56	Kaplin	S.M.	Lyovochkin	-	FLB	PPB	PPB
57	Kunitsyn	S.V.	Firtash	-	FLB	PPB	PPB
58	Larin	S.M.	Lyovochkin	FLB	FLB	Opposition Bloc	Opposition Bloc
59	Lytvyn	V.M.	Lyovochkin	FLB	FLB	People's Will	People's Will
60	Lyovochkin	S.V.	Lyovochkin	FLB	FLB	Opposition Bloc	Opposition Bloc
61	Lyovochkina	YU.V.	Lyovochkin	FLB	FLB	Opposition Bloc	Opposition Bloc
62	Melnychuk	S.P.	Lyovochkin	FLB	FLB	People's Will	People's Will
63	Myrnyi	I.M.	Firtash	FLB	FLB	Opposition Bloc	Opposition Bloc
64	Miroshnychenko	YU.R.	Lyovochkin	FLB	FLB	Opposition Bloc	Opposition Bloc
65	Moskalenko	YA.M.	Boyko	-	FLB	People's Will	People's Will
66	Nechayev	O.I.	Firtash	-	FLB	Opposition Bloc	Opposition Bloc
67	Pavlenko	YU.O.	Lyovochkin	FLB	FLB	Opposition Bloc	Opposition Bloc
68	Papiyev	M.M.	-	FLB	FLB	Opposition Bloc	Opposition Bloc
69	Prodan	O.P.	Firtash	-	FLB	PPB	PPB
70	Skoryk	M.L.	Lyovochkin	FLB	FLB	Opposition Bloc	Opposition Bloc
71	Tryhubenko	S.M.	Firtash	-	FLB	PPB	PPB
72	Fursin	I.H.	Firtash	FLB	FLB	People's Will	People's Will
73	Chepynoha	V.M.	Lyovochkin	-	FLB	PPB	PPB
74	Chervakova	O.V.	Lyovochkin	-	FLB	PPB	PPB

Sources: Berdinskikh (2015). *Novoye Vremya* . Available: https://bit.ly/3jKZ01y. [Accessed June 24th 2020.] Romanyuk & Kravets (2016a), (2016b), (2016c), (2017a), (2017b), (2017c), (2018). *Ukrayinska Pravda* . Chernyshev et al (2017). LIGA.net. Available: https://bit.ly/3jYzohU. [Accessed August 18th 2021.]

Note: a) FLB: Joint group of Firtash, Lyovochkin & Boyko. PPB: Petro Poroshenko Bloc. b) A dash means no information was given for network association of the individual for that time period, or that they stopped being an MP.

iii) Timeline and periodisation

Since a large number of laws were submitted and processed by the Rada over the period of study the criteria for choosing which ones to examine is one important consideration of the research design; another is the periodisation of the timeline in which the legislative voting took place.

Periodisation: thinking and framework

To take the second of these first, the aim of periodisation is to place the analysis of legislative voting patterns in parliament in the broader context in the Rada of ongoing changes in leadership, factional membership and alliances, as well as the key external political and economic events that may have affected them, thereby acting as an aid to interpretation of any changes in voting patterns over time.

Two sources in particular were helpful in arriving at plausible analytical divisions in Ukraine’s political and economic timeline for this period. The first is a US political science paper by Magelinski et al (2019), which uses two kinds of computer modelling to identify marked shifts in the pattern of voting in the Ukrainian parliament, and the factional orientations that underlie them, from the sixth to the eighth convocation (that is, starting from 2007). The first, "ideal point" method finds structural breaks in the patterns of Rada voting in December 2013, and again in late summer 2015 (Magelinski et al, 2019, p. 195). The second "faction detection" method finds for the seventh convocation of the Rada factional structures stable up until February 2014, followed by a break in favour of opposing factions (Magelinski et al, 2019, p. 196). Using this method, the paper finds two further, but less distinct, factional re-partitions, one in April 2015 and one a year later, in April 2016. Although this approach provides some useful starting points, supporting hunches about possible voting junctures and factional realignments, a drawback of the paper is that suggestions on what might have been the political or economic developments behind the shift in factional voting are not always identified. This is one of the things I aim to address in the second analysis of this chapter.

For the task of connecting these patterns of voting and factional disruption to the political events with which they might be linked, the detailed political timelines of Europa's Eurasian Regional Survey provided some useful clues.

With the aid of these sources, I derived three broad political divisions for my study timeline—which, in the end, turned out to be more straightforward than expected.

The starting date of each of the periods corresponds to an important development in formal politics and runs up until just before the initiation of the next. The end date of the third analytical period, however, reflects a feature of the research design of my study more broadly, which envisages comparative phases stretching approximately four years either side of the Euromaidan protests (in this instance, as I have said, on voting patterns, I focus on the post-Euromaidan era, in order to study mainly the process of institutional recreation). The first analytical period for the main analysis of this chapter starts, therefore, with the "critical juncture" of the Euromaidan, paving the way for the administration of the first, interim government of Arseniy Yatsenyuk, from late February 2014 until November 2014. The second is marked by the span of the subsequent Yatsenyuk government, from December 2014 up until April 2016. It follows the pre-term general election of late 2014 and ends with the appointment of a new administration, headed by of Volodymyr Hroysman, which lasted past the end of the study period, of December 2017. For my analysis of factional voting patterns, this periodisation scheme allows me to propose explanations for the disruption in Rada voting patterns, such as those identified by Magelinski et al (2019), and the factional realignment underlying them, in terms of key political and economic events and developments of the preceding period.

iv) Choice of laws

Moving on to the choice of laws to examine, the focus of my research in this chapter is narrower than that of a Ukrainian study that employs a similar periodisation scheme, and which looks at the voting record of Rada factions and individual deputies across a wide range of reform legislation (Bondarenko et al, 2019). Rather than investigating the reform process overall, I restrict my analysis to the kinds of laws that correspond to the “inclusive” economic rules required to generate broad-based economic affluence, according to modern institutional economics.

In the first instance, this means selecting laws that align with the criteria taken from the “Why Nations Fail” theory of Acemoglu and Robinson, as outlined in Chapter Two. To recap, this theory suggests that “extractive” political rules tend to engender extractive economic ones, while “inclusive” political rules, based on relatively plural political participation and a functioning central state, are more likely to foster “inclusive” economic norms and practices necessary for broad-based economic growth. Private property rights, and an impartial judiciary with the capacity to enforce them, are among the central inclusive economic rules. Others include low barriers to market entry and active state support for entrepreneurial activity.

In practice, what I am calling the institutional theory of prosperity is similar to, but not identical with, some other approaches to assessing an economy’s legal and institutional preparedness to encourage investment and productivity growth as a means of expanding the capacity to generate output and accumulate wealth. Although these approaches focus on the same broad problem, they do so from different angles, and in more or less expansive ways.

One alternative might be termed the business environment rankings approach. The business environment includes the factors that affect how firms operate. A factor for a country's business environment is the investment climate, which describes its ability to attract domestic or foreign investment. The focus is on identifying the practical changes in rules and regulations needed to simplify the way businesses work. One example is the Doing Business index (World Bank, 2020). It ranks countries according to how easily their regulations allow firms to operate across ten types of business activity. Streamlining of these regulations and strengthening property protection translate into a reduction in a country's score in the index (that is, a lower score implies less onerous administrative obligations) and so a rise in the ease of doing business rankings. On this, Ukraine ranked towards the bottom end of the index in the early Yanukovych years, but began to improve quite markedly in the final years of his presidency, and again following his downfall in 2014.

The Schumpeterian innovation approach. A second alternative approach hones in on the process of innovation, or the commercial application of new inventions. A relatively recent example of this is a paper by Janos Kornai. Concerned over a rise in the popularity of anti-capitalist ideas in the West following the global financial crisis of 2008-09, he sets out to demonstrate the economic superiority of capitalism in terms of the systematic incentives it provides for the dynamic technological and commercial changes needed to develop useful new products. Drawing on the ideas of Joseph Schumpeter, an Austrian economist, he outlines the "general" systemic characteristics required for dynamic entrepreneurial innovation. This includes decentralisation of initiative, the prospect of a "gigantic reward", competition, space for experimentation and access to financing (Kornai, 2010, pp. 640-641).

From the point of view of this study, the Doing Business index helps to open up awareness of the concrete kinds of regulatory improvements that could be included in our investigation, while Kornai's paper explicitly connects economic institutional characteristics with dynamic innovation linked to higher standards of living, both in quantitative (higher income) and qualitative (more useful products) material terms. Seen alongside Acemoglu and Robinson's institutionalist criteria, these alternatives offer greater room for manoeuvre in the selection of which "prosperity" laws to analyse than just using the criteria from *Why Nations Fail* conditions on their own.

My primary focus, then, was on identifying political economy reform legislation that matches the above criteria in order to test the hypothesis that the heads of large financial-industrial groups (FIGs) have been able to transform their material resource power, explored in Chapter Four, into the political influence needed to systematically obstruct economic reform bills that threaten their business interests in the post-Euromaidan era, thereby hindering Ukraine's economic growth prospects.

v) Data set preparation and summary list of legislation examined

With the analytical timelines and criteria for law selection in place, and using the Rada's legislative archive and information gathered from local journalistic sources, I prepared two data sets of voting by individual people's deputies on selected "prosperity" laws by faction—one for the fourth and fifth sessions of the seventh convocation, covering the first phase of analysis after February 2014, and one for the eighth convocation, covering the second and third periods of analysis up until December 2017. In order to identify possible bills, I combed through the lists of legislation presented in the Rada's plenary meetings across each of my three analytical periods. The first data set consists of six "business environment" laws. This was an initial, exploratory attempt at analysing the data in Stata (the statistical software that I use) to ensure that my research idea would work. However, I was unable to find specific information on the informal groups aligned to the "old" oligarchs in this period. For the second data set, for which information on such cross-factional associations has already been outlined, I selected 17 laws across three categories, relating to aspects of reform of the business environment (marked "BE" on Table 5.3 below), to institutional political or judicial changes (marked "PP"), or to sectoral laws (marked "S") linked in some way to the business interest of leading "old" oligarchs.

Across the three analytical periods, Table 5.3 below presents a summary of the 23 selected bills. It shows the number assigned to each bill for the purpose of this chapter (1-23, in chronological order), alongside its official number, the date on which the roll-call vote took place, the initiator of the legislation, the "political economy" category it falls into (BE, PP or S), and a short description of the topic it addressed.

Table 5.3: Summary of 23 selected institutional prosperity bills, Feb 2014-Dec 2017

Bill no. in this study	Official no.	Date of vote	Initiator	Category of political economy (PE) law	Topic
First period, Feb-Nov 2014					
1	4586	13.06.2014	Yatsenyuk	BE	Investment protection
2	3614-1	03.06.2014	Fatherland MP	BE	SME state support
3	2037	01.07.2014	Azarov	BE	Joint-stock firms
4	4101a	04.07.2014	Yatsenyuk	BE	Tax on capital income
5	0937	22.07.2014	Azarov	BE	Restrictions on state economic intervention
6	4930	02.09.2014	Yatsenyuk	BE	Corporate income tax & VAT
Second period, Dec 2014-Mar 2016					
7	1580	25.12.2014	Yatsenyuk	BE	Deregulation
8	1839	10.02.2015	Yatsenyuk	BE	Shareholder rights
9	2250	09.04.2015	Yatsenyuk	S	Gas market law
10	2382	09.04.2015	Yatsenyuk	BE	Doing Business ratings
11	2138a	08.10.2015	Leshchenko/ PPB	PP	Party finances
12	2431	26.01.2016	Samopomich/ Fatherland MPs	BE	Competition policy
13	3755	16.02.2016	PPB MPs	PP	Prevention of corruption
14	3755-P1	18.02.2016	"404 Not Found"	PP	Preventing prevention of corruption
15	2286a	13.04.2016	PPB MPs	S	Financial system
Third period, Apr 2016-Dec 2017					
16	4734	02.06.2016	Poroshenko	PP	Judiciary
17	2413a	02.06.2016	Poroshenko	S	Financial system
18	5368	21.12.2016	Hroysman	BE	Investment climate
19	2302a-d	17.01.2017	Samopomich MPs	BE	Corporate governance
20	4840	21.02.2017	PPB MP	S	Mining
21	6232	20.06.2017	Poroshenko	PP	Judicial procedures
22	7276	05.12.2017	Hroysman	PP	Anti-corruption
23	3096d	19.12.2017	PPB & other MPs	S	Oil & gas

Source: Verkhovna Rada. ARKHIV ZA SKLYKANNYAMY (online archive of legislative votes). Available: https://iportal.rada.gov.ua/. [Accessed September 13th 2021.]

Note: PE category key: BE: business environment; PP: political pluralism or rule of law; S: sectoral.

Just over half of the proposed laws listed relate to the business environment (labelled as “BE” in Table 5.3). These are state regulations setting the conditions for capital investment and taxes, the competitive relations of firms to one-another, as well as the limits of the state’s role in private economic activity. The reason for the predominance of these kinds of laws in my selection is twofold. First, in institutional theories of economic development they are central to understanding the link between policy and growth prospects. Second, the composition of a data set on six business environment bills for February-November 2014 formed the initial, exploratory phase of my investigation.

From the scale of the task of choosing the laws and composing the database for this first exercise, it became clear that I would have to reduce the scope of the research in order to complete it in a reasonable time. For subsequent periods I therefore opted for a smaller, more mixed range of political and economic legislation to reflect the broader political economy criteria outlined in the “choice of laws” section above.

Alongside six further bills on aspects of reform of the business environment, therefore, in the second and third analytical periods there are also five that come under the heading of “political pluralism”, which takes in measures to tackle corruption, to strengthen the judiciary, and to provide public finance for political parties. Five laws addressing reforms of specific economic sectors were also included. These can be interpreted in a similar way to those on the business environment—as attempts to improve business regulation and competition, for example. At the same time, the sectors chosen—energy, extraction and finance—are among those in which the business interests of the most high-profile “old” oligarchs are well represented.

B. Voting patterns in the Verkhovna Rada on “prosperity” legislation: three analyses

<u>V. Outline of the Rada analyses</u>

With an analytical timeline in place and the legislation selected for examination, the second half of the chapter presents the results of three interlinked analyses.

The first analysis addresses the political situation in the run up to the pre-term parliamentary election of October 2014, along with its results. It focuses on the patterns of change and continuity within and between legislative convocations. This includes factional dynamics, as well as the overlap of personnel between parliaments, and of the deputy cohorts of the seventh and eighth convocations with the Focus-100 rich list from Chapter Four. These overlapping aspects offer a glimpse into the means of reproduction of Ukraine's political and economic elite after the Euromaidan victory, and of the fusion of economic power and political office in the persons of certain key actors. It provides a second means, alongside the "core rich" list from Chapter Four (Table 4.14), of identifying key individuals within the Ukrainian elite in whom lasting positional political power and economic power are fused—that is, of identifying individuals who qualify as oligarchs.

A second analysis examines the intertwining voting patterns of the formal factional with sub- and cross-factional Rada formations on the selected "institutional prosperity" bills across the three analytical periods. Here, the investigation is structured by a distinction between the *propensity* of Rada groups to support reform legislation (the changing shares of each group supporting the bills) and their *capacity* to do so (their voting weight in parliament). The results are put into their political and economic context by way of explanation of them. A key finding is that while in the eighth Rada convocation the parties of Poroshenko as president and Yatsenyuk, initially the prime minster, were the mainstays of legislative support throughout, following the disintegration of the five-party coalition of broadly "pro-Euromaidan" factions, the necessary additional backing came from the ranks of the successor parties of Yanukovych's PoR, as well as the sub- and cross-factional groups linked to the "old" oligarchs associated with them.

A third analysis uses cross tables and inferential statistics to check for a systematic relationship between membership of the purported "old" oligarch Rada factions and the pattern of support for political-economic reform legislation in the eighth convocation. An apparently firm statistical relationship showing "old" oligarch MPs failing to support "prosperity" legislation more consistently than other MPs breaks down, however, when controlled for the distinction between "coalition" and "opposition". It is probably better, therefore, to view the direct financial control of deputy votes by prominent oligarchs as just one informal practice of political influence embedded in the broader, flexible factional framework of the Rada as the medium through which the evolving alliances and rivalries of the main business-political networks are expressed.

VI. Continuity and change within and between the seventh and eighth convocations

In late July 2014 a pre-term election was initiated in Ukraine by the withdrawal of two parties from the first post-Euromaidan governing coalition. The new president, Petro Poroshenko, dissolved parliament a month later, in accordance with the restored 2004 constitution (Shevel, 2015, p. 159). This followed a bout of domestic political turbulence unprecedented in the independence era, and occurred alongside an escalating war in the country's easternmost regions.

i) Aspects of change

Change 1: Formal factional dynamics in the seventh convocation

In the Rada, the period of the interim government is characterised by two main developments. The first was the rise to dominance of an unofficial coalition of parliamentary parties, formerly in opposition, led by politicians who had prominently backed the Euromaidan protests. This coalition included Fatherland, with Arseniy Yatsenyuk and Oleksandr Turchynov taking the main leadership roles; UDAR, of Vitaliy Klychko, a successful boxer; and the nationalist Svoboda (Freedom) party, headed by Oleh Tyahnybok.

The second was the rapid but incomplete disintegration of the formerly ruling Party of Regions (PoR). Its breakaway MPs tended to re-form into two new deputy groups, Economic Development and Sovereign European Ukraine. As part of the same process, the period saw the formal disappearance of the Communist faction, the junior party in the outgoing Yanukovych administration, many of whose members formed the core of the For Peace and Stability group of legislators following the passage of de-communisation laws in July 2014. In Figure 5.1 below I have gathered together these three breakaway groups under the label of "post-Euromaidan" parties. The chart conveys visually the scale of the factional change in this period. It shows the number of deputies registered as members of the PoR (the leftmost cluster of bars) dropping from 183 MPs towards the start of the parliamentary term (the tallest, leftmost, darkest grey bar) to just 76 by August 2014, a loss of 107 MPs, or almost 60% of the total. The rise of the “post-Euromaidan” groupings, represented by the two bars second-farthest to the right, is almost a mirror image of this, rising from just one MP at the start (not visible on the chart, because it is too small) to 112 MPs by August. The absence of third, light grey column for the Communists indicates their disappearance as a formal political formation in the Rada after July. Some members of both the PoR and the Communist Party opted to become factionally unaligned MPs. These seismic shifts in parliamentary organisation were driven mainly, of course, by the rupture triggered by political violence and the toppling of the Yanukovych presidency as a culmination of the Euromaidan protests.

Of the pro-Euromaidan parties, only Fatherland suffered noticeable losses in this period—albeit nothing like on the scale of the PoR—with its deputy numbers falling from 103 at the start of the period to 86 at the end, down by 17 MPs, or 16.5%. Most of these seem not to have migrated to other Rada factions. In contrast, the parliamentary factions of UDAR and Svoboda maintained broad organisational integrity throughout, so that their bar clusters are almost flat.

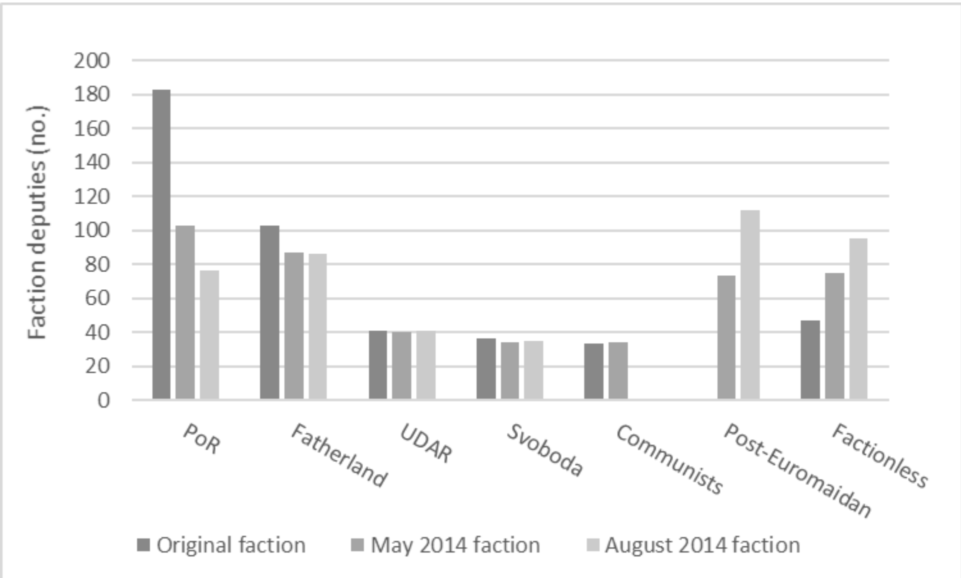


Figure 5.1: Formal factional dynamics in the 7th convocation of the Rada, 2012-14. Sources: Verkhovna Rada, online archive of membership and legislative votes. Available: https://iportal.rada.gov.ua/. [Accessed September 13th 2021.] Own calculations. Note: PoR: Party of Regions.

Change 2: Main implications of the party-political changes in the Rada between the 2012 and 2014 parliamentary elections

The Rada that emerged from the pre-term parliamentary election of October 2014 was in many ways quite different from those that came before—featuring, for example, a rather high turnover in personnel, so that about two-thirds of deputies to take seats in the new parliament had not been present in the seventh convocation[17].

With a "mixed" electoral system in place in both cases, Table 5.4 below sets out the results for the 2012 and the 2014 legislative elections, taken from the website of the Central Election Commission (CEC), and based on the parties' performance in the (proportional) national vote, but also showing the single-mandate seats for the parties that passed the 5% national threshold. It gives an indication of the parties' legislative voting weight at the start of the seventh and eighth convocations.

Table 5.4: Results of parliamentary elections in Ukraine for parties winning seats in the national vote, 2012 & 2014

		Seats (no.)			
Party	**Share of the national vote (%)**	**Party list/ national constituency**	**Single mandate districts**	**Total, out of 450 Rada seats**	**Share of all Rada seats (%)**
October 2012 election					
Governing					
Party of Regions (PoR)	30.0	72	113	185	41.1
Communist Party of Ukraine (CPU)	13.2	32	0	32	7.1
Opposition					
Fatherland	25.6	62	39	101	22.4
Ukrainian Democratic Alliance for Reform (UDAR)	14.0	34	6	40	8.9
Svoboda (Freedom)	10.5	25	12	37	8.2
October 2014 election					
Governing					
People's Front	22.1	64	18	82	18.2
Petro Poroshenko Bloc (PPB)	21.8	63	69	132	29.3
Samopomich (Self-Reliance)	11.0	32	1	33	7.3
Radical Party	7.4	22	0	22	4.9
Fatherland	5.7	17	2	19	4.2
Opposition					
Opposition Bloc	9.4	27	2	29	6.4
Other					
Independents	-	-	96	96	21.3

Sources: The Central Election Commission of Ukraine. (2012, 2014). Election of people's deputies of Ukraine. Available: https://bit.ly/391gkuj. [Accessed September 9th 2021.]; Shevel (2015).

The table shows the PoR as the dominant party at the start of the seventh convocation in 2012, with a total of 185 seats in the Rada. Similarly, in 2014 the new president's party, the PPB, led the field at the start of the eighth

[17] This was estimated by comparing the Rada lists of MPs for each parliamentary term using the conditional formatting function in Excel.

convocation, with 132 seats. In combination with 82 seats of the other main coalition party, People's Front (PF), this took their combined total to 214. An interesting commonality between the two parliamentary terms is that, on each occasion, "presidential" parties relied on the single-mandate districts for the majority of their seats.

The 2014 contest marked the emergence, for the first time since independence, of a (nominally) pro-Western, pro-market parliamentary majority in the Rada. With the formation of a five-party governing coalition in its wake, this developed into a constitutional majority, including through co-option of independents to the president's eponymous Petro Poroshenko Bloc/ PPB (Shevel, 2015, p. 160). Centring on the PPB and PF of Arseniy Yatsenyuk, returning as prime minister, the coalition included other parties that had supported the protests against the Yanukovych government. These were Samopomich (Self-Reliance), with its roots in western Ukraine; the Radical Party, headed by a former journalist, Oleh Lyashko; and the much-reduced Fatherland, again led by Yuliya Tymoshenko.

The converse of the success of these "Westernising" political forces was a poor electoral showing of the parties that evolved from the PoR, alongside the disappearance from the Rada—for the first time in the contemporary era—of an organised Communist faction. The Communist Party of Ukraine (CPU), reconstituted in 1993 following a short ban on the Soviet-era organisation of the same name, had won representation in every general election since 1994, but failed to take any seats in 2014. Although the PoR also failed to make it through, at least in the same organisational form, the main body of its surviving MPs reconstituting themselves as the Opposition Bloc, but with only 29 seats, greatly diminished in size and shorn of some of the most prominent PoR leaders, many of whom had fled abroad.

Between them, these two developments left the "pro-Russian" camp in the Rada unusually weak. This reflected not just the discrediting of Yanukovych associates, or the revelations following his fall of the exorbitant high-level corruption that had flourished under his rule, or the process of "de-communisation" initiated by the post-Euromaidan authorities, but also Russia's drastic response to his flight, reducing the traditional voting base of the

PoR/Opposition Bloc through its military takeover of Crimea and destabilisation of east Ukrainian regions. As Shevel writes, "in attempting to prevent Ukraine from leaving Russia's orbit, Putin's actions contributed to the emergence of the most pro-Western legislature in post-Soviet Ukrainian history in two ways: first, by cutting off many of the most Russia-friendly voters from the ballot and second, by turning public opinion in Ukraine against Russia" (Shevel, 2015, p. 161). In due course, however, the parliamentary numbers of the opposition were bolstered by the emergence, from MPs who had returned to the legislature as nominal independents, of other successor factions to the Yanukovych-era ruling party—namely, People's Will and Renaissance.

As a consequence of these developments, expectations on the prospects of rapid and thoroughgoing reform were raised to their highest pitch since the immediate aftermath of the Orange Revolution, almost a decade before. Moreover, contrary to the thrust of Russia's large-scale propaganda campaign, portraying the downfall of Yanukovych as the result, not of mass popular protest, but of a fascist coup, the Ukrainian far right—in the form of Svoboda and Pravyi Sector—performed poorly in the 2014 election, receiving between them only a handful of single-mandate seats.

Although it is possible, therefore, to depict the results of the 2014 election in ideological terms—as greatly diminishing or excluding the parties of the far left and far right, for example—the application of such labels can be misleading in the context of Ukraine's party system (as described earlier in the chapter), since Ukrainian parties do not tend to perform the same role as in liberal democratic political systems, precisely because, as has been noted already, of enduring strong overlaps of the public and private worlds, of political and economic institutions and personnel. A recent account underscores this point, contrasting the characteristics and role of parties in a liberal democratic setting with those in Ukraine's situation. Rather than a means of articulating popular policies through established political channels, so helping to legitimise them, in a post-communist setting, with its specific institutional and political culture, parties are viewed as a vehicle for the integration and operation of hierarchical informal networks within the formal political framework (Magyar and Madlovics, 2020, pp. 150-151). This is a description resonates with the account earlier in the chapter of the purported role of some parties of the eighth convocation—the Radicals and Fatherland, according to some sources (Andrusiv et al, 2018, p. 63)—which appeared to act as a “buffer” between the population and the elite, showing a populist, anti-establishment face to the public in order to win seats, but then selling to the elite the parliamentary voting rights so gained, while marketing themselves as a reliable vote-supplying organisation against competitors.

<u>Change 3: Formal factional dynamics in the eighth convocation</u>

Compared with the seventh convocation, disrupted first by domestic political violence and then by the onset of the Ukraine-Russia war, the scale of factional change is much less dramatic across the eighth convocation, despite the increased fragmentation of the parliamentary scene. Figure 5.2 below presents the factional dynamics up to December 2017.

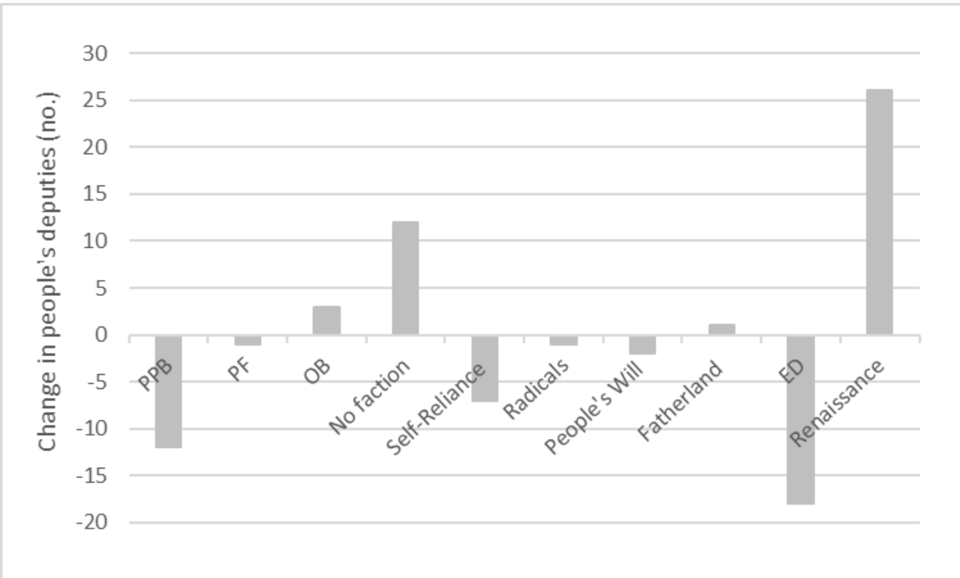


Figure 5.2: Formal factional dynamics in the 8th convocation of the Rada, Dec 2014-Dec 2017. Sources: Verkhovna Rada, online archive of membership and legislative votes. Available: https://iportal.rada.gov.ua/. [Accessed September 13th 2021.] Own calculations. Note: PPB: Petro Poroshenko Bloc; PF: People’s Front; OB: Opposition Bloc; ED: Economic Development.

Key features of the above chart include not only the disappearance of Economic Development, a “post-PoR” grouping, and the corresponding rise of Renaissance, a nominally “pro-Russian” grouping linked to Kolomoyskyi (Romanyuk and Kravets, 2017a), but also the reduction in membership of the president's party in the course of the parliamentary term, which may have been due in part both to the loss of some MPs following a serious clash with Kolomoyskyi in March 2015, as well as by the "loan" of some of its MPs to People's Will later that year to allow it to form an independent parliamentary faction (Romanyuk and Kravets, 2017b).

ii) Aspects of continuity

Continuity 1: Factional origin and destination of deputies re-elected to the eighth convocation

The re-election of people's deputies from the seventh convocation represents a notable line of continuity between the two parliaments. For the period under study, up until December 2017, 156 out of 454 individuals who sat as deputies in the eighth convocation had also been deputies in the seventh convocation[18]. This means that roughly one-third of the legislators in the new parliament were "old hands", while around two-thirds were first-time deputies, a high ratio in comparison with previous parliaments, reflecting the disruptive impact of revolutionary events.

Table 5.5 below shows the factional change for 148 of these "old hands" between the end of the seventh convocation, in August 2014, and early on in the eighth convocation, in April 2015. The figures emboldened in the body of the table show the main destination faction, set out in the column headings, of each origin faction in the row headings in the left-hand column.

- The largest contingent of these MPs—one-quarter of the total, or 37 deputies—ended up in the new president's party, the PPB (shown in the second to bottom row of Table 5.5). Around one-quarter of the re-elected parliamentarians came from the Fatherland faction, the biggest single supplier of returning MPs (38). Of these, only about one-fifth remained in the party under Tymoshenko, while 55% joined People's Front (PF), the new organisation of Yatsenyuk and Turchynov, the Fatherland leaders at the time of the Euromaidan. Another fifth was drawn into the PPB.

[18] The figure of 454 is higher the number of MPs elected in October 2014, of 423, as some MPs left the institution and were replaced.

- Just over one-third of the politicians re-elected to the eighth convocation came from the one of the formerly ruling parties under Yanukovych, or one of the factions formed from them. Of those from the PoR proper, just over 60% (13 out of 21 returning MPs) ended up in the Opposition Bloc, while the bulk of the "post-Euromaidan" deputies from the seventh convocation, or about 80% of them (26 out of 32), split evenly between the People's Will and Renaissance successor groups in the eighth.
- Unaligned MPs accounted for roughly one-fifth of the parliamentary veterans who managed to enter the new parliament, and UDAR a little less than that. While almost the entire UDAR contingent joined the president's PPB (reflecting a pre-election deal between the two leaders) and around 17% of factionless deputies did likewise, close to one-third of the "no faction" deputies who made it into the new legislature retained this status following re-election, while others joined the Opposition Bloc or People's Will.
- Although returning MPs formed only one-third of the complement of the new parliament, they made up around 46% of the "old oligarch" informal factions identified by *Novoye Vremya* and *Ukrayinska Pravda*.

Table 5.5: Old wine into new bottles: re-elected deputies' changing formal factional allegiances between Radas, 2014-15

(% of origin faction deputies distributed by destination faction, unless otherwise indicated)

Origin faction, August 2014 / Destination faction, April 2015	PPB	PF	OB	No faction	Self-Reliance	Radicals	PW	Fatherland	Renaissance	Total
PoR	0.0	0.0	**61.9**	14.3	0.0	0.0	4.8	0.0	19.1	100.0
Fatherland	21.1	**55.3**	0.0	0.0	2.6	0.0	0.0	21.1	0.0	100.0
UDAR	**95.8**	0.0	0.0	0.0	0.0	4.2	0.0	0.0	0.0	100.0
Svoboda	0.0	0.0	0.0	100.0	0.0	0.0	0.0	0.0	0.0	100.0
Post-PoR	3.1	3.1	0.0	12.5	0.0	0.0	**40.6**	0.0	**40.6**	100.0
No faction	17.2	3.5	20.7	**31.0**	0.0	6.9	13.8	0.0	6.9	100.0
Total (no.)	37	23	19	20	1	3	18	8	19	148
Total	25.0	15.5	12.8	13.5	0.7	2.0	12.2	5.4	12.8	100.0

Sources: Verkhovna Rada. ARKHIV ZA SKLYKANNYAMY (online archive of legislative votes). Available: https://iportal.rada.gov.ua/. [Accessed September 13th 2021.] Own calculations.

Continuity 2: Focus-100 and "core rich" MPs in the seventh and eighth convocations

In a similar vein, but this time looking at the connection between different institutions rather than across the same one over time, is the overlap in personnel between the deputies of both parliamentary convocations and the Focus-100 rich list from the previous chapter. Correspondences between the names on these lists was again checked using the conditional formatting function in Excel, which highlights repetitions between columns of variables. The results are summarised in Table 5.6 below.

Table 5.6: People's deputies of the 7th and 8th convocations who appear on Focus-100 rich list, 2006-17

	7th convocation		8th convocation	
No.	**Last name**	**Initials**	**Last name**	**Initials**
1	Baysarov	L.V.	Berezkin	S.S.
2	Berezkin	S.S.	Bobov	H.B.
3	Bobov	H.B.	**Bohuslayev**	V.O.
4	**Bohuslayev**	V.O.	Vadaturskyi	A.O.
5	Boyko	V.S.	Hereha	O.V.
6	**Buryak**	S.V.	Hirshfeld	A.M.
7	Vasadze	T.SH.	Hranovskyi	O.M.
8	Vasylyev	H.A.	Derkach	A.L.
9	Hereha	O.V.	Yeremeyev	I.M.
10	Hirshfeld	A.M.	**Zhevaho**	K.V.
11	Derkach	A.L.	Zahoriy	H.V.
12	Yedin	O.Y.	Zvyahilskyi	YU.L.
13	Yeremeyev	I.M.	Ivakhiv	S.P.
14	Zhvaniya	D.V.	Klimov	L.M.
15	**Zhevaho**	K.V.	Klyuyev	S.P.
16	Zvyahilskyi	YU.L.	Kostenko	P.P.
17	Ivanyushchenko	YU.V.	Lyovochkin	S.V.
18	Ivakhiv	S.P.	Mykytas	M.V.
19	Kyi	S.V.	**Novynskyi**	V.V.
20	Klychko	V.V.	Svyatash	D.V.
21	Klimov	L.M.	**Taruta**	S.O.
22	Klyuyev	S.P.	Feldman	O.B.
23	Kolesnikov	B.V.	Shufrych	N.I.
24	Kurovskyi	I.I.		
25	Landyk	V.I.		
26	Moshenskyi	V.Z.		
27	Mkhitaryan	N.M.		
28	**Novynskyi**	V.V.		
29	Polyakov	V.L.		
30	**Poroshenko**	P.O.		
31	Pryhodskyi	A.V.		
32	Prodyvus	V.S.		
33	Rudkovskyi	M.M.		
34	Svyatash	D.V.		
35	Sihal	YE.YA.		
36	Tabalov	O.M.		
37	**Tihipko**	S.L.		
38	Feldman	O.B.		
39	**Khmelnytskyi**	V.I.		
40	Shufrych	N.I.		

Sources: Focus.ua. The Focus Ratings archive for 2006-17 data (published the following year) is available at: https://focus.ua/rating/archive. [Accessed September 27th 2019.] Verkhovna Rada. ARKHIV ZA SKLYKANNYAMY (online archive of legislative members and votes). Available: https://iportal.rada.gov.ua/. [Accessed September 13th 2021.]

Note: Those MPs who also appear on the list of the "core rich" are emboldened; those who survived as MPs between the two convocations are underlined.

Some key points to draw from the above table are as follows.

- Of the parliamentarians who sat in the earlier term of the Rada, 40 (or about 9% of the total) also appeared on the Focus-100 rich list at least once in 2006-17. Seven of these 40 MPs are also listed among the “core rich”, identified in the previous chapter as the (28) most enduringly successful business owners in this period. In the second column of the table, their surnames are emboldened.

- In the eighth convocation (up to December 2017), the number of “Focus MPs” fell almost by half, to 23 (or 5% of the total), while the number of “core rich MPs” declined to four. Of these 23, 16 had retained their seats from the earlier parliamentary term (out of the total of 156 such deputies identified above). In the first of the “8th convocation” columns, their names are underlined.
- Those whose names for the eighth convocation are both emboldened and underlined in Table 5.6 are therefore among the wealthiest and most enduring of Ukraine’s lawmakers in the period examined, each wielding two or three “power resources” (material, positional power and mobilisational power) over an extended period.
- This underscores the important point that, while definitional distinctions are indispensable analytically (here, between wealth-holders and office-holders), in practice, among the top tier of the Ukrainian elite, such distinctions blur. In looking to identify the membership of Ukraine’s “oligarch class”—extremely rich business figures with political influence at the national level—the names emboldened and underlined here augment, and should be viewed alongside, those of the “core rich” list from the last chapter (Table 4.14).

<u>iii) What is the significance of these patterns regarding the reproduction of the Ukrainian oligarchy?</u>

The two dimensions of the intersection of personnel examined here—between parliaments, and between legislative and economic institutions—provide evidence of continuity in Ukraine’s political-economic elite, even in the wake of a seriously disruptive political disjuncture like the Euromaidan events. The first opens a window onto the process of reconstitution, renewal and transformation of formal parliamentary factions in the Rada across parliamentary terms. Going by the wholesale movement of “old hands” between formal factions from one parliament to the next, it also supports the view that factional associations are more fluid and pragmatic, and based more on the attractions of currently powerful political network leaders, than ideological groupings. The second dimension offers some support for the notion of that wealth, and wealth-holders, remained central in Ukrainian politics following the Euromaidan, as before.

Lastly, the continuity of even relatively small numbers of political-economic network leaders and sub-leaders means that they bring with them, and can therefore transmit to newcomers, know-how of “customary” elite political and economic practices, so perpetuating the “regime”.

At the same time, the results of the analysis are suggestive of a direct fusion of the institutions of Ukraine’s political and economic elites, in the persons of key individual wielders of position and wealth, reminiscent of the “power elite” approach to understanding the operation and reproduction of elite rule, associated with the US sociologist C Wright Mills. He gives a stylised account of the shifting relative positions of US elites heading the main institutions of economic, political and military power up to the 1950s, of a small ruling group “laced together” by personal relationships, shared social activities, but chiefly by overlapping interests and personnel, who between them are able to “make decisions with terrible consequences for the underlying populations” (Mills, 1956, p. 278). The significance of this for my study is that, as with Winters’ “political materialism”, it offers the empirical researcher a useable approach, as well an emulatable example on how the narration of the fluctuating power relations between distinctive groups within elites might be handled, while drawing attention to the idea of overlapping personnel as a mechanism for achieving elite cohesion between component institutions.

VII. Interaction of formal factional with sub- and cross-factional voting patterns on institutional prosperity bills after the Euromaidan

i) Introduction and summary of voting results

Having identified the “stables” of people’s deputies that “old” oligarchs are reported to have maintained, or whose votes they procured for specific bills, how do formal and informal (sub- and cross-) factional voting patterns in the Rada interweave to arrive at legislative outcomes? This is a key question that the detailed descriptive and contextual analysis that follows attempts to answer, identifying the patterns of parliamentary factional support for, and obstruction of, political-economic reform legislation.

Table 5.7 below presents a summary of the roll-call results grouped across three periods for the 23 political economy bills selected for analysis.

In the Ukrainian parliament, deputies can respond to a legislative voting opportunity in one of five ways. The online archive records these as “for”, “against”, “abstained”, “did not vote” and “absent”. For ease of analysis, I have simplified the voting results for each bill into three categories, of “for”, “not for” (covering explicit opposition, abstention and the failure to vote), while keeping “absent” as a separate category.

The size of the last two categories (“not for” and “absent”) account between them for the instances in which a bill was not adopted. To pass, cumulative backing for a bill must rise about the 50% threshold, equal to 226 or more seats in the single, 450-seat Rada chamber.

The columns of results on the right-hand side of the table show the raw numbers of Rada deputies voting “for” each bill or “not for” (incorporating votes against, as well the failure to vote), with the shares of these in the Rada chamber displayed alongside. The number and share of MPs absent from the voting chamber are also shown.

Of these bills, 12 were adopted and 11 were not. This is indicated in the final column of the table with an “A” (adopted) or an “NA” (not adopted). In the first and second analysis periods, legislation proposed by the cabinet of ministers headed by Yatsenyuk is well represented; in the third period, several bills are initiated by the Hroysman government or by President Poroshenko.

Table 5.7: Voting results on 23 "institutional prosperity" bills, Feb 2014-Dec 2017

				Voting results							
				For		Not for		Absent			
Bill no. in this study	Initiator	Category of political economy (PE) law	Topic	no.	% of seats	no.	% of seats	no.	% of seats	Total deputies (no.)	Adopted/ not adopted
First period, Feb-Nov 2014											
1	Yatsenyuk	BE	Investment protection	247	**54.9**	91	20.2	109	24.2	447	A
2	Fatherland MP	BE	SME state support	97	21.6	224	49.8	125	27.8	446	NA
3	Azarov	BE	Joint-stock firms	153	34.0	160	35.6	132	29.3	445	NA
4	Yatsenyuk	BE	Tax on capital income	267	**59.3**	40	8.9	138	30.7	445	A
5	Azarov	BE	Restrictions on state economic intervention	234	**52.0**	11	2.4	200	44.4	445	A
6	Yatsenyuk	BE	Corporate income tax & VAT	126	28.0	178	39.6	141	31.3	445	NA
Second period, Dec 2014- Mar 2016					0.0		0.0		0.0		
7	Yatsenyuk	BE	Deregulation	265	**58.9**	74	16.4	82	18.2	421	A
8	Yatsenyuk	BE	Shareholder rights	175	38.9	180	40.0	66	14.7	421	NA
9	Yatsenyuk	S	Gas market law	290	**64.4**	61	13.6	70	15.6	421	A
10	Yatsenyuk	BE	Doing Business ratings	187	41.6	88	19.6	146	32.4	421	NA
11	Leshchenko/ PPB	PP	Party finances	232	**51.6**	83	18.4	107	23.8	422	A
12	Samopomich/ Fatherland MPs	EE	Competition policy	174	38.7	156	34.7	91	20.2	421	NA
13	PPB MPs	PP	Prevention of corruption	238	**52.9**	99	22.0	83	18.4	420	A
14	"404 Not Found"	PP	Preventing prevention of corruption	109	24.2	106	23.6	205	45.6	420	NA
15	PPB MPs	S	Financial system	211	46.9	128	28.4	81	18.0	420	NA
Third period, April 2016-Dec 2017											
16	Poroshenko	PP	Judiciary	281	**62.4**	100	22.2	35	7.8	416	A
17	Poroshenko	S	Financial system	180	40.0	169	37.6	67	14.9	416	NA
18	Hroysman	BE	Investment climate	235	**52.2**	125	27.8	62	13.8	422	A
19	Samopomich MPs	BE	Corporate governance	256	**56.9**	96	21.3	71	15.8	423	A
20	PPB MP	S	Mining	223	49.6	64	14.2	135	30.0	422	NA
21	Poroshenko	PP	Judicial procedures	253	**56.2**	117	26.0	52	11.6	422	A
22	Hroysman	PP	Anti-Corruption	146	32.4	185	41.1	91	20.2	422	NA
23	PPB & other MPs	S	Oil & gas	231	**51.3**	114	25.3	78	17.3	423	A

Source: Verkhovna Rada. ARKHIV ZA SKLYKANNYAMY (online archive of legislative members & votes). Available: https://iportal.rada.gov.ua/. [Accessed September 13th 2021.]

Note: PE category key: BE: business environment; PP: political pluralism or rule of law; S: sectoral.

ii) Period 1: The interim government and the dominance of the "pro-Euromaidan" factions, with previously ruling groups continuing to disintegrate

The first period is delimited at one end by the flight from Kyiv of Yanukovych and his lieutenants, and at the other by the formation of a new government in the wake of the early parliamentary election of October 2014. Within this, the election of Petro Poroshenko in late May marks a shift in political leadership from the "duumvirate" of Oleksandr Turchynov (as interim president and parliamentary speaker) and Arseniy Yatsenyuk (as interim prime minister) immediately after the Euromaidan victory to the more uneasy one between

Yatsenyuk as the head of the government and Poroshenko as head of state that followed, conditioned by the more even distribution of formal political power between the president and parliament following the restoration of the 2004 constitution.

Period 1: The propensity of formal Rada factions to back economic reform bills

Under the first Yatsenyuk government, in late February-November 2014, it was the political formations backing the new, hastily formed administration in parliament that tended to be the most well-disposed towards economic policy reforms. These were the parties (Fatherland, UDAR and Svoboda) that had formed the parliamentary opposition to Yanukovych's PoR following the October 2012 Rada election, and whose leaders had supported the Euromaidan protests prominently. During the fourth and fifth sessions of the seventh convocation examined here, the share of MPs from these factions backing the six proposed business environment (BE) laws was high, averaging above 60%.

Figure 5.3 below presents three kinds of information on these voting results. First, the horizontal dashed black line indicates the average level of voting "for" the six proposed bills across the Rada chamber (42%). Second, the grey bars represent the average level of voting "for" the bills by formal parliamentary faction. These show that the share of MPs from each of the three "pro-Euromaidan" factions backing the six laws tended to be much higher than the parliamentary average. In contrast, the shares of the Yanukovych-era ruling factions (the remains of the PoR and the Communists) voting for the bills were well below the average and, for the Communist faction, virtually non-existent. Meanwhile, the "post-PoR" factions (Economic Development and Sovereign European Ukraine, here merged into one bar), formed through splits from the PoR, were in a middling position, modestly above the chamber average, in keeping with the notion that a portion of these deputies were willing to co-operate with the new authorities, if only to distance themselves from the discredited PoR (Romanyuk and Kravets, 2017a, 2017b).

Third, the dark dots, aligned vertically with the factional bars to which they correspond, show the "for" shares of each faction on each bill individually. A key point to draw from these patterns is that although the main clusters tally broadly to the average pattern for each political group represented by the grey bars, they also show considerable variation in voting shares within the formal political factions across bills. So, for example, although the share of support from Svoboda MPs is exceptionally high for four of the six laws, clustering around 90%, it is zero for the other two (overlapping dark grey dots at the bottom of the Svoboda bar on the chart).

Whereas the relative closeness of the dots could be interpreted as an indication of the broad factional disposition towards economic policy reform, factional voting towards the very top of the chart (100% in favour) and the very bottom (0% in favour) could be read as an indicator of factional discipline—that is, of a large majority of the faction voting the same way. If so, this seems to show the Communists, and especially Svoboda, as the most disciplined formal Rada factions in this period, with most members voting in unison, perhaps reflecting their origins as more ideologically based organisations.

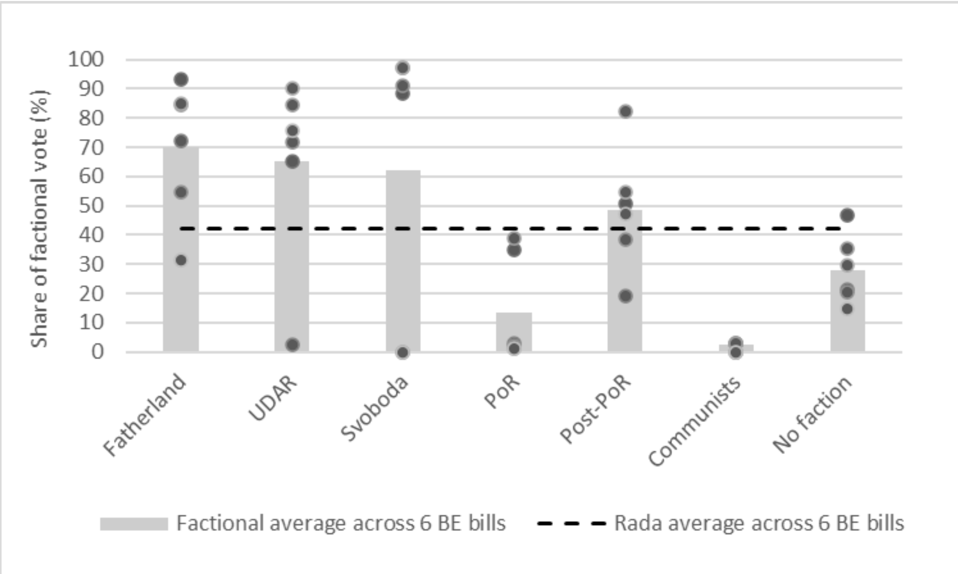


Figure 5.3: Share of formal Rada factions voting "for" BE laws, Feb-Nov 2014.
Sources: Verkhovna Rada, online archive of membership and legislative votes. Available: https://iportal.rada.gov.ua/. [Accessed September 13th 2021.] Own calculations. Note: “BE” bills means “business environment” bills.

What might explain the variations in factional voting across bills? Although it is not the main purpose of the current investigation—which is to trace and explain changes in the broad formal and cross-factional voting patterns, and their interaction, over each of the analytical three periods—if we look at the law on joint-stock firms (number three in this study), for example, we note that for most of the other laws, although the factional voting of Fatherland, as the core of the governing coalition, was in the 70-90% range, it dropped below 60% for this bill. A reason for this could be, as Konończuk suggests, an informal alignment of some Fatherland deputies with Ihor Kolomoyskyi's network to try to delay a bill assumed to impinge on his energy-sector business interests (Konończuk, 2016, p. 18, pp. 29-30).

Period 1: The capacity of formal Rada factions to support economic reform bills

Overall. The analysis so far tells us about the broad orientation of the Rada factions to the selected economic reforms in this period. However, it is also important to assess which of the formal factions made the strongest voting contributions to passing or blocking reforms, which depends also on their relative voting weight in parliament.

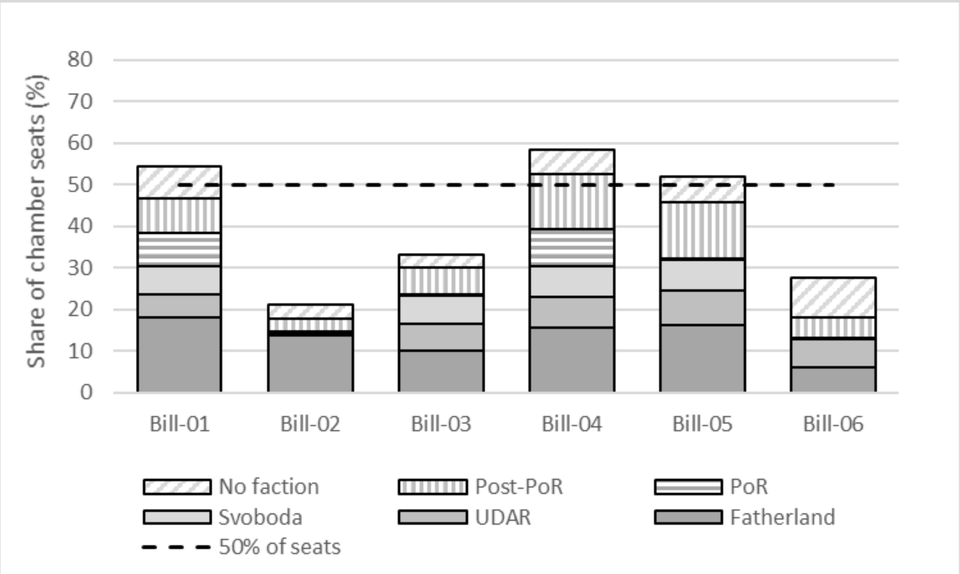


Figure 5.4: Contribution of "for" votes of formal Rada factions on BE laws, Feb-Nov 2014. Sources: Verkhovna Rada, online archive of membership and legislative votes. Available: https://iportal.rada.gov.ua/. [Accessed September 13th 2021.] Own calculations. Note: PoR: Party of Regions.

Despite finding themselves propelled into government because of the dramatic events of February 2014, in the final sessions of the Rada's seventh convocation, the pro-Euromaidan parties between them continued to command a maximum of just 35-36% of the chamber vote. Backing from at least some of the deputies associated with the Yanukovych administration was therefore necessary to pass economic legislation. In this period, three of the six business environment reforms examined were adopted—numbers one, four and five.

This is shown in Figure 5.4 above by the stacked bars, representing the cumulative “yes” votes of deputies across all formal Rada factions, with successful votes pushing above the dashed black line, which represents the 50%-of-seats threshold to be met or surpassed for a law to be adopted.

Successful bills. On successful bills, the “for” votes of the three pro-Euromaidan factions—Fatherland, UDAR and Svoboda—between them made a solid contribution to the passage of the laws, equal to more than 30 percentage points of the required 50%. In the chart above, these are the three plain grey cells, differently shaded but unpatterned, at the base of each of stacked bar. However, the sizeable positive voting contributions of the post-PoR factions, equal to between eight and 14 percentage points (the vertically striped cells of the bars), were crucial in pushing the “yes” votes above the threshold in these cases. So too was support from some PoR deputies (horizontally striped cells), worth 8-9 percentage points. “For” votes from factionally unaligned legislators made a difference on bills one and five (diagonally patterned cells).

Rejected bills. Conversely, there were two main factors behind the rejection of the reforms put forward in bills two, three and six. The first was a large “not for” cumulative vote by the factions linked to the former ruling group, along with significant numbers of nominally unaligned parliamentarians. Moreover, the “not for” votes subsumed within them a very high level of absences from the voting chamber, accounting for 25-45% of all seats on the legislation examined (see Table 5.7 above).

In the early post-Euromaidan period, absence from parliament seems to have been a tactic by which legislators associated with the Yanukovych-era authorities were able to contribute to the defeat of some legislation, without explicitly objecting to it through their voting behaviour. On one level, this recalls a point made by Whitmore, when she identifies “non-voting” as one of the “subroutines” of MPs’ political performance in the Rada, recourse to which is conditioned by the changing structure of political opportunities (2019, p. 1,492). However, at least in the early period that followed the Euromaidan, this phenomenon may have been more linked to the highly charged political atmosphere generated by the upsurge in deadly violence preceding the collapse of the Yanukovych administration, as well as perhaps the rise in patriotism following the onset of the Russia-Ukraine conflict.

A second factor behind the rejection of these reforms, more unexpected than the first, is the low level of support from one or more of the pro-Euromaidan factions themselves. For example, on bill two, dealing with state support for small business, the total “not for/ absent” votes of the successors to the former ruling parties diverted 43% of all chamber mandates away from a positive result. At the same time, the combined “non-positive” contributions of UDAR and Svoboda deputies were substantial, at around 16 percentage points. That is to say, the pro-Euromaidan factions themselves were not always united in their approach to reforms of the business environment.

<u>iii) Which political and economic developments help to explain differences in voting patterns between periods 1 and 2?</u>

One way of making sense of the voting patterns in each of the three periods of analysis is to read them broadly as the outcome of the main political and economic developments in the lead up to them.

Looking at the period of the interim government, this means centrally, of course, the three-month-long anti-government protests of the Euromaidan, leading in early 2014, in the wake of political violence that left scores dead on the streets of Kyiv, to the downfall of the Yanukovych administration, at once discrediting and fragmenting the political forces associated with it, while lifting into power those parliamentary forces most supportive of the demonstrations. This explains both the switch in institutional power positions of the pro- and anti-Euromaidan factions, as well as the broad split in their voting patterns.

At the same time, although destabilisation of the financial system and increasingly open military conflict with Russia developed during this period, the domestic political effects of them did not have their full, visible impact on the composition of the Rada until after the 2014 elections—that is, until the period of the second Yatsenyuk government. In this sense, key developments that took place during the first period of analysis help to explain the transition to the Rada of the second period, with its changed political composition and character. Among the most relevant developments should be included:

- the re-introduction of the 2004 constitution, bolstering the powers of parliament and the prime minister relative to those of the president;
- the failure to roll back the "mixed" election laws—re-introduced under Yanukovych in time for the 2012 Rada election—and, in particular, its single-mandate element, sometimes considered a root into parliament for "network" or oligarchic-linked deputies;
- the stage-by-stage re-integration of key oligarchs and their business networks, first in the organisation of regional defence and then in the more customary role as financial and media backers during the electoral campaigns, despite the official rhetoric of "de-oligarchisation";
- the rise to the presidency of a second-tier oligarch, Petro Poroshenko, along with his Vinnytsya-based business-political network, both owing to his early backing of the protests and to his image as an experienced political operator, a "safe pair of hands" in a crisis;
- the plummeting popularity of politicians and parties associated with Yanukovych or seen as "pro-Russian", alongside a reduction in the size of the "pro-Russian" electorate as a consequence of territorial annexation or *de facto* occupation.

These developments, along with the concomitant rise of patriotic and pro-Western sentiment in reaction, left pro-Euromaidan factions in a strong position in parliament, with enhanced powers, not requiring too much co-operation from the rather subdued PoR opposition successor factions for as long as they remained relatively united—which, as after the Orange Revolution, almost ten years before, was not for long.

iv) Period 2: The second Yatsenyuk government; the formation and disintegration of the five-party coalition

The second analytical period, from December 2014 until mid-April 2016, is that of the five-party Rada coalition formed to support the second Yatsenyuk government. At the start, the political forces that came out on top following the

Euromaidan protests were at the height of their political power, holding both the presidency and premiership, and dominating the legislature. However, it was also the period of the onset of the progressive disintegration of the five-party coalition, as the ramifications of a second serious military defeat by Russian-led forces in the Donbas in early 2015 played out in domestic politics, even as a struggle for political pre-eminence within the government (between the president and the prime minister) and between the president and leading oligarchs (in particular, Kolomoyskyi) also fed into splits within the governing camp and to an eventual factional realignment in the Rada.

Period 2: The propensity of the formal Rada factions to support prosperity bills; signs of alignment in voting with "old" oligarch groupings

Shares of formal factions backing the bills. In the new parliament, the nine selected "prosperity" bills, proposed between December 2014 and March 2016, were initiated either by the cabinet or by Rada deputies from factions of the five-party coalition. These bills covered not only reforms of the business environment, as in the first period, but also on countering corruption and electoral financing for political parties, as well as the energy and financial sectors. Four bills were adopted and five rejected.

Reflecting the increased parliamentary weight of "pro-Euromaidan" forces aligned, at least nominally, to a reformist agenda, the level of support for the institutional prosperity laws examined rose across the Rada as a whole under the second Yatsenyuk government compared with the first, to 49%, from 42%.

Nonetheless, in this phase, the patterns of formal factional propensity of support show some similarities with those in the previous Rada, albeit complicated by the proliferation and evolution of parties, factions and deputy groups. Specifically, the average shares of factional "for" votes among the five-party coalition were higher than for the successor factions of the PoR. However, factional legislative support was not equally solid among coalition members, but appeared to depend on relative closeness to the dominant political leaders, Poroshenko and Yatsenyuk. For example, across all nine bills, factional shares of "for" votes were above the Rada average for only four of the five coalition members (the PPB, the PF, Self-Reliance and Fatherland). Support among faction members of the president's PPB, and especially Yatsenyuk's PF, was high, averaging above 60% and 70%, respectively. On a tier below this, support from both Fatherland and Self-Reliance averaged just under 60% across the nine bills, with the more erratic stance on reform of the Radicals bringing their average level of support down towards 40%. Meanwhile, backing from factions with their origins in the PoR were almost uniformly below the parliamentary average for most votes, with an average of just 9% of deputies of the Opposition Bloc, the main successor party of the PoR, voting for these reforms.

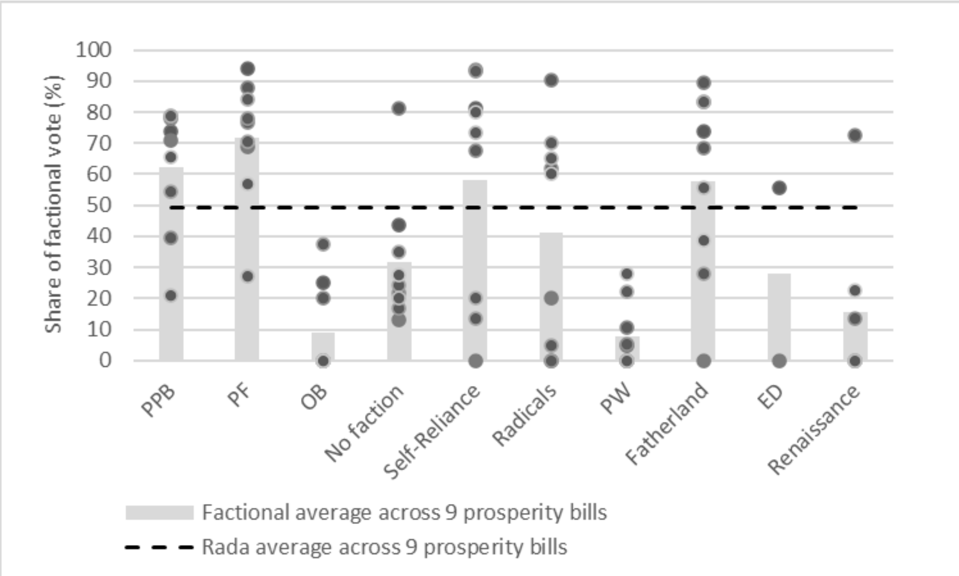


Figure 5.5: Factional shares of 5-party coalition voting "for" prosperity bills, Dec 2014-Apr 2016. Sources: Verkhovna Rada, online archive of membership and legislative votes. Available: https://iportal.rada.gov.ua/. [Accessed September 13th 2021.] Own calculations. Note: PPB: Petro Poroshenko Bloc; PF: People's Front; OB: Opposition Bloc; PW: People's Will; ED: Economic Development.

These points are shown visually on Figure 5.5 above, with the grey bars again representing average factional "for" votes. For the president's PPB and the prime minister's PF—the two between them providing the core of government support in parliament throughout the period of the eighth convocation examined—these are well above the dashed black line, representing the average "for" vote across the chamber, and for Self-Reliance and Fatherland, a little less so. However, the average factional "for" shares are below this line for the Radicals and factionless MPs. The "opposition" formations—the Opposition

Bloc (OP), People's Will (PW), Economic Development (ED)/ Renaissance—tend to offer the least support, all below 20% of their factional compositions.

On this chart, moreover, a more varied pattern of factional voting, compared with the first period, is shown by the wider spread of the dark grey dots associated with each faction's bar, indicating greater variation in attitude to political economy reforms within formal factions across bills. So, for example, although clusters of dots above the bars for Self-Reliance, Fatherland and the Radicals show high levels of support within these groups for several pieces of reform legislation individually, they each also display quite low levels of support for at least another three bills. In hindsight, this may be indicative of the five-party coalition's inherent fragility as a vehicle for the pursuit of broad and sustained policy reform.

Correspondence in changes in the propensity of formal, and sub- and cross-factional "old" oligarchic formations, to back prosperity bills.

Under the second Yatsenyuk government, the willingness of the "old" oligarch sub- and cross- factional groups (comprised of 66 MPs in total in this period; see Table 5.2) to back the selected "prosperity" laws was much lower than for the formal factions, with just 19% of such MPs doing so, compared with 49% across the chamber as a whole. Within this overall description, the small number of deputies reported in the local press to be linked to Pinchuk were consistently more inclined to support the legislation, and those of Kolomoyskyi's larger group (15 MPs), somewhat less so. Of the others, Akhmetov's group (with 20 MPs) were the least well-disposed on average. The changing patterns of willingness to support these bills among the Firtash-Lyovochkin-Boyko (FLB) group—viewed as a close alliance of distinct business-political networks, with Firtash's Group DF nevertheless paramount—with 24 MPs, is less regular, but low overall.

However, the shares of these sub- or cross-factional MP groups associated with the "old" oligarchs not only peak on different laws, but appear to align with the voting patterns of different formal factions, perhaps reflecting their specific (sectoral) business interest and/or their current political alliances in the Rada. These patterns of associated voting remain intact even when the MPs identified with the “old” oligarchs are removed from their formal factions to avoid “double counting”. So, in the left-hand graphic below (Figure 5.6), the jagged upper and lower lines rise and fall in accord across the proposed bills, suggesting that a portion of FLB-associated MPs may have been working in informal alliance with the dominant formal Rada factions (the PPB and the PF), with more backing from People’s Will on later bills. The graph beside it, meanwhile, shows a simultaneous rise in the shares of MPs from the Akhmetov and Medvedchuk groups, as well as of the Opposition Bloc, voting for bills seven and 12, but withholding support in unison on almost all the others, suggesting a degree of voting co-ordination or overlap of interests.

This second pattern of alignment may be less surprising than the first, given overlaps of personnel, regional and political-institutional links, common political and business interests and, related to these, geo-political perspectives. However, the first makes sense, too, if read in the light of the widely circulated reports of an informal agreement between Poroshenko and Firtash made in Vienna, the Austrian capital, ahead of the presidential election of May 2014 (Matsiyevsky, 2018, p. 351). Moreover, after the departure of the Radicals from the coalition in late 2015, People’s Will are reported to have reached a mutually beneficial arrangement with the PPB (Romanyuk and Kravets, 2017b).

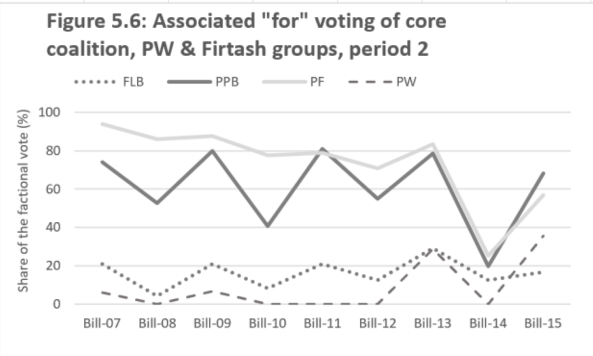


Figure 5.6: Associated "for" voting of core coalition, PW & Firtash groups, period 2

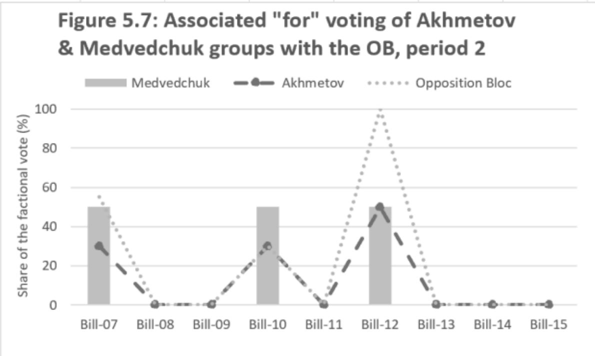


Figure 5.7: Associated "for" voting of Akhmetov & Medvedchuk groups with the OB, period 2

Sources: Verkhovna Rada, online archive of membership and legislative votes. Available: https://iportal.rada.gov.ua/. [Accessed September 13th 2021.] Berdinskikh, K. (2015). *Novoye Vremya*. Available: https://bit.ly/3jKZ01y. [Accessed June 24th 2020.] Romanyuk, R. and Kravets, R. (2016a), (2016b), (2016c), (2017a), (2017b), (2017c), (2018). *Ukrayinska Pravda*. Chernyshev et al (2017). LIGA.net. Available: https://bit.ly/3jYzohU.Own calculations. Note: FLB: Firtash-Lyovochkin-Boyko; PPB: Petro Poroshenko Bloc; PF: People’s Front; PW: People’s Will; OB: Opposition Bloc.

Period 2: Voting contributions of formal Rada factions in support of nine prosperity bills

Overall. In the second period, the voting contribution of the leading government parties, the PPB and the PF, remained high, averaging 32 percentage points over the nine votes examined. This reflected not only high factional commitment to the legislation, but also their numerical weight in the new parliament. However, the contributions of the smaller coalition parties were also vital, with Self-Reliance, the most ideologically liberal of them, offering the most solid support. It added an average around 4 percentage points of backing for the bills, with the other two coalition parties, Fatherland and the Radicals, contributing just over 2 percentage points each, and unaligned deputies, almost 3 percentage points.

In this period, positive contributions to passing these proposed laws from the parties to emerge from the PoR were between low and zero. This contrasts not only with the stance of the coalition parties, but also with that of the opposition's own factional forebears under the interim government. This was so not just for the Opposition Bloc, but also for the groups that arose from the factions that broke away from it. This change in relations between parliaments ties in with the accounts of the leaders of these factions that they were more or less side-lined by the second Yatsenyuk government for as long as their votes were unnecessary for the completion of parliamentary business (Romanyuk and Kravets, 2017b, 2017b).

Because of the increase in the number of formal factions in the eighth convocation, in Figure 5.8 below I merged factional voting contributions into broader groups. The lower, unpatterned cells of the stacked bars represent the voting contributions of the main coalition groups (the PPB plus the PF; dark grey), while the smaller coalition groups are in light grey on top of them, and the much less significant positive contributions of the combined opposition (the Opposition Bloc, People's Will and Economic Development/ Renaissance) marked with vertically striped cells a top of the bars. This was the period in which polarisation in the Rada, or mutual alienation between the political forces on opposite sides of the line drawn by the Euromaidan protests, was at a maximum.

Successful bills. In the period up to mid-April 2016, the PPB and the PF were the major backers of those “prosperity” bills adopted by the Rada, contributing 39-42 percentage points between them of the required 50%. Initially, at least, the starting position of the core government parties appeared considerably more advantageous than for those of the interim government. On paper, the combined voting capacity of the two peaked at around 51% of the maximum possible votes early in eighth convocation, but had dropped below the 50% threshold by October 2015, amid departures from the president’s faction, possibly linked to his earlier clash with Kolomoyskyi.

Crucial to the passing of the successful bills in this phase was the support of at least two of the three smaller coalition parties (light grey cells) and/or a portion of factionless MPs (diagonally striped cells). So, for example, on a law proposed by the prime minister to reform the gas market (bill nine), the combined backing of the Radicals and Fatherland, contributing just over 11 percentage points of the total chamber vote, was enough to push support for the legislation above the 50% threshold, when added to the votes of the PPB and the PF.

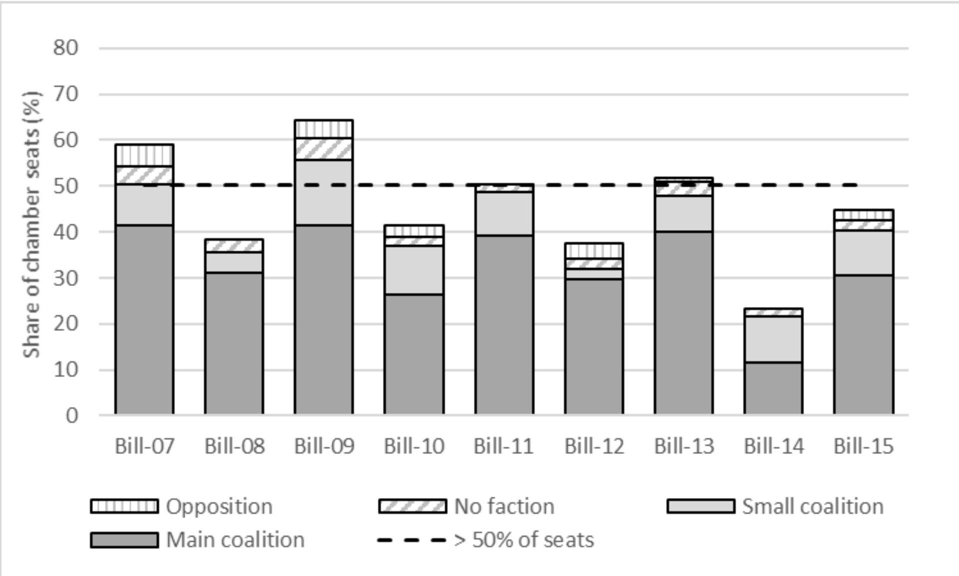


Figure 5.8: "For" votes of formal Rada factions on "prosperity" laws, Dec 2014-Mar 2016. Sources: Verkhovna Rada, online archive of membership and legislative votes. Available: https://iportal.rada.gov.ua/. [Accessed September 13th 2021.] Own calculations.

Rejected bills. Conversely, although the Opposition Bloc was often a significant detractor from the passage of the bills that failed in the Rada, diverting 7-9% of the total chamber vote away from them, on its own, this was usually insufficient to block a prospective law, even in combination with the non-positive votes of other post-PoR formations, as well as some formally unaligned lawmakers.

Perhaps the most striking feature of the data for this period, therefore, is that, under the second Yatsenyuk administration, a large part of President Poroshenko's own party consistently failed to back the government's political economy reforms. Typically, this was the main reason for a bill's failure. On the bills that were not adopted (bills eight, ten, 12, 14 and 15; see Figure 5.8), the combined mandates of PPB deputies failing to support the legislation was equal to between 11 and 20 percentage points of all votes. On bill eight, for instance, concerned with shareholder rights and proposed by the cabinet, the tally of the PPB MPs who did not back it totalled just over 17% of all chamber votes, almost the same as the "non-positive" votes of the post-PoR parties combined. This perhaps reflects the origins of the PPB as a hastily assembled political vehicle for Poroshenko following his presidential victory; the weakness of Ukraine's party system, noted earlier in this chapter; and the related phenomenon of informal political formations within and across the formal ones in the Rada. Thus, of the 22 PPB deputies who more often than not failed to vote for the "prosperity" bills examined here, eight are mentioned in local investigative journalism sources as falling within the "orbit" of an "old oligarch", while the voting behaviour of the others suggests that their allegiance may also have been elsewhere.

<u>v) The changing political economy context of period 2 as explanation for the change in Rada alliances and voting patterns in period 3</u>

As before, the key political and economic developments of the second analytical period help mainly to provide the context for understanding the broad change in political alignments, and so voting patterns, in the third. The resignation of Yatsenyuk as prime minister and his replacement by Hroysman corresponds, therefore, to a switch in parliamentary alliances, as the loss of three of the five coalition parties left the authorities—now based formally on support in the Rada only from Poroshenko's PPB and Yatsenyuk's PF—more reliant on the opposition factions that had emerged from the PoR, as well as on deputies linked to a handful of "old" oligarchs, often, with a strong overlap between the two.

This switch in factional Rada alliances, moreover, corresponds to a shift in the relations of the main business-political networks underlying them. In particular, 2016 is the year of the political "rehabilitation" of Rinat Akhmetov; after spending 2014-15 in the (relative) political wilderness, reportedly part of the developing network pyramid around Yatsenyuk, he switched his support to Poroshenko (Chernyshev et al, 2017). Although Poroshenko's clash in 2015 with Kolomoyskyi and his Privat network over control of energy rents may have reduced the latter's inclination to co-operate, Yatsenyuk, on his departure from the premiership, may have been able to negotiate favourable conditions for his party and business base (Konończuk, 2016, p. 37). Following the onset of the war with Russia (first stage) and the costly elections of 2014 (second stage), this development seems to mark a third stage of backtracking on "de-oligarchisation".

One subdivision within the second period runs from the formation of the administration in December 2014 until March 2015, with the second stretching from April 2015 to mid-April 2016. There are several candidates for the events that could have altered broad political economy alliances between the two.

The most obvious of these, perhaps, is the domestic political fall-out from the agreement of the second Minsk peace deal in the war with Russian and Russian-backed forces in eastern Ukraine, following the military defeat of the Ukrainian army at Debaltseve, a transport hub in Donetsk region, in early 2015 (Kudelia and Kazianov, 2021, p. 47-48). This agreement contained stipulations still more unfavourable for Ukraine than the first Minsk deal of September 2014. In particular, the provision in Minsk II for embedding autonomous status for the Donbas into the Ukrainian constitution produced serious repercussions in Ukrainian politics, culminating in late August 2015 in a deadly grenade attack by Ukrainian nationalists outside parliament (Europa, 2019, p. 520), which was followed by the withdrawal of the Radicals from the government coalition

(Romanyuk and Kravets, 2017c). This initiated the coalition's drawn-out disintegration, which moved into a second phase in February 2016 with the withdrawal of Fatherland and Self-Reliance. In turn, this followed the resignation of the reforming economy minister, Aivaras Abromavičius, and his team in protest against official meddling and corruption—and, in particular, against the role in ministry appointments of Ihor Kononenko, one of President Poroshenko's key political overseers—which left the government's parliamentary majority in jeopardy (Kalymon and Havrylyshyn, 2016).

Another key development, alluded to above, was a serious clash between Poroshenko and Ihor Kolomoyskyi, a prominent "old" oligarch, in early 2015, around the same time as the agreement of Minsk II, leading to Kolomoyskyi's dismissal as governor of Dnipropetrovsk region. The story behind this clash is one of the keys for understanding the factional political battles, and so the political and network alignments and realignments, of this period, and is investigated in greater depth in the next chapter. It helps to understand the increased reliance of the Poroshenko-Hroysman government on political forces linked to the Yanukovych-era ruling groups, as a counterweight to the influence of Kolomoyskyi and his Privat group, with whom Yatsenyuk and the PF were informally aligned.

vi) Period 3: A realignment of government and former Yanukovych factions in the Rada under the Hroysman government

The third phase of analysis begins with the appointment of the Hroysman government in mid-April 2016, so bringing to an end a period of open conflict within the government. It ends in December 2017, marked in international relations with the grant of military aid to Ukraine by the Trump administration in the US and a victory in the Stockholm arbitration court on Ukraine's debts to Gazprom, Russia's state energy company (Europa, 2019, p. 521). Of the eight laws examined here, half were accepted and half were not. They covered judicial reform, improvements in the investment climate and corporate governance, as well as mining and banking reforms. They were initiated either by the president, the cabinet or by MPs close to the core parties of the governing coalition.

Period 3: The propensity of the formal Rada factions to support prosperity bills; signs of re-alignment with “old” oligarch deputy groups

Change in the shares of formal factions backing bills between periods. On the pattern of formal factional shares of support for “prosperity” legislation from mid-April 2016, there are again points of similarity and difference with earlier periods.

The voting coherence displayed by the remaining parliamentary factions of the governing coalition, the PF and the PPB, stayed intact, with each recording rates of support averaging around 70% across the eight bills (the two leftmost pairs of bars in the Figure 5.9 below). An explanation for the PF sticking with the coalition arrangement, even after the replacement of Yatsenyuk as head of the government is that, with its ratings exceptionally low (Razumkov Centre, 2017), owing in part to its open pursuit since the early post-Euromaidan period of “kamikaze” policies, including steep increases in household energy prices, the party’s MPs feared not only losing the connection with executive power but, should the fall of the coalition have led to early elections, the loss of their seats too (Romanyuk and Kravets, 2016b).

The most pronounced feature of the period, however, is a turnabout in the relative willingness of the other, smaller formal parliamentary factions to support these bills. Following the break-up of the government coalition, for example, the level of support among its former members dropped markedly—for Fatherland by the most, from close to 60% in the second period (the dark grey factional bar, fourth from the left, in Figure 5.9) to below 25% in the third (the corresponding lighter grey bar); and least for the Radicals, who started lowest. At the same time, the incidence of support for this legislation rose sharply for the Opposition Bloc, People’s Will and especially Economic Development/ Renaissance, among whose MPs the average level of backing rose from around 18% in the second period to close to 50% in the third. These developments point to an increase in co-operation between the remaining “core” government factions and those of the opposition, marking a sea-change in political alliances in the legislature compared with the previous periods.

Chaisty and Chernykh (2015) identify control of a legislative majority as an important feature of Ukrainian politics in the Rada that has sometimes helped to stabilise Ukraine's presidential political system—albeit, at times, at the expense of democratic accountability. They argue, for instance, that loss of control of parliament in late February 2014 was the direct trigger for Yanukovych's flight from Kyiv. Their account of the internal workings of the Rada is consistent with the operation of what elsewhere in this study is described as the alternation between single or multiple "network pyramids", so resonating with my narrative from Chapter Three on the evolution of the oligarchy as a ruling political economy institution.

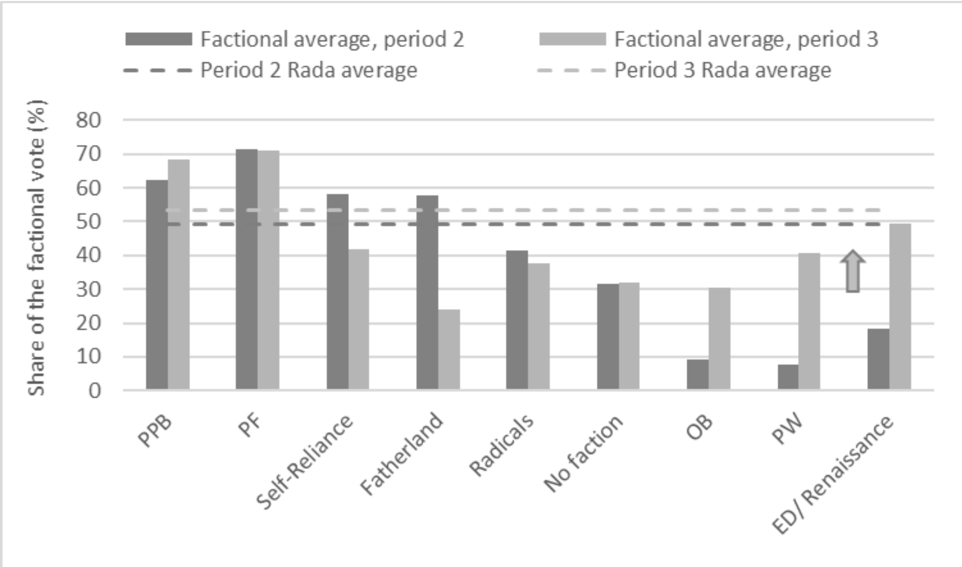


Figure 5.9: Change in formal Rada faction shares voting "for" prosperity laws, periods 2 & 3. Sources: Verkhovna Rada, online archive of membership and legislative votes. Available: https://iportal.rada.gov.ua/. [Accessed September 13th 2021.] Own calculations. Note: PPB: Petro Poroshenko Bloc; PF: People's Front; OB: Opposition Bloc; PW: People's Will.

In Figure 5.9, above the horizontal dashed lines, rising from the dark grey of the second period to the lighter grey of the third, show parliament as a whole becoming more well-disposed towards the proposed prosperity bills. This could suggest that, under the Hroysman administration, the arrangements with opposition and former coalition were, in fact, a more effective means of generating support for reform legislation than was the five-party coalition. A second notable change in the Rada in this period is a fall in the level of parliamentary absences, as the immediate post-Euromaidan stigma attached to the former ruling factions began to fade and as PoR successor groups were re-integrated into the post-Euromaidan legislative process.

Change in levels of support from "old" oligarchic sub- and cross-factional MPs. Similarly, in the first year and a half of the Hroysman administration, the willingness of the "old" oligarch cross-factional formations to back the eight prosperity bills rose on average to 32%, from 19% in the previous period, suggesting an increased propensity of some MPs associated with these groups to co-operate with the government. Although still relatively low, this rise, of 13 percentage points, was more marked than for the formal factions overall.

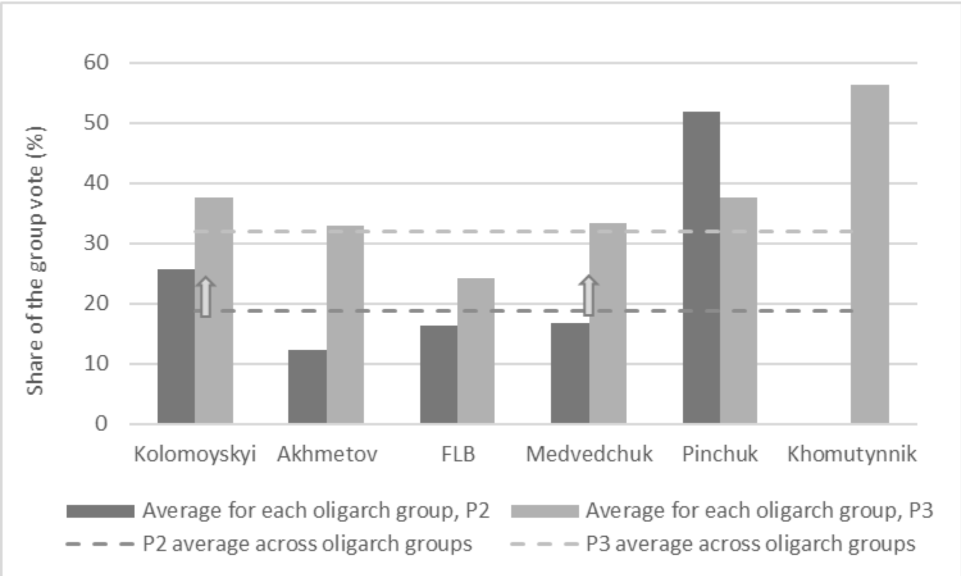


Figure 5.10: Changing shares of "old" oligarch groups voting "for" prosperity bills, period 2 & 3. Sources: Verkhovna Rada, archive. Available: https://iportal.rada.gov.ua/. [Accessed September 13th 2021.] Berdinskikh, K. (2015). Available: https://bit.ly/3jKZ01y. [Accessed June 24th 2020.] Romanyuk, R. and Kravets, R. (2016a), (2016b), (2016c), (2017a), (2017b), (2017c), (2018). *Ukrayinska Pravda*. Chernyshev et al (2017). LIGA.net. Available: https://bit.ly/3jYzohU. Own calculations. Notes: FLB: Firtash-Lyovochkin-Boyko.

The change in the average "for" vote among such MPs is indicated in Figure 5.10 above by the upward movement, denoted by arrows, from the lower, darker dashed line under the second Yatsenyuk administration (period 2) to the higher, lighter dashed line following the formation of the Hroysman cabinet of period 3.

An increase in the factional incidence of support was seen across all the “old” oligarch groups, except Pinchuk’s small one, but was strongest for the Akhmetov and Medvedchuk groups. Coinciding with the increased readiness of parliamentary groups that had evolved from the formerly ruling PoR to support government political economy reforms, the increased willingness of these formal and informal factions to back government legislation on these reforms clearly distinguishes the third period of analysis from the second, seeming to mark their institutional re-integration into the work of the Rada.

Correspondence in changes in the propensity of formal and informal (sub- and cross-) factional formations to back prosperity bills. Again adapting the formal factional voting data to subtract the MPs (53 in this period) identified with one of the “old” oligarch groups so as to avoid double counting, the alternation in voting proportions, illustrated in the twinned charts below, seems to show a high degree of voting co-ordination on the prosperity bills.

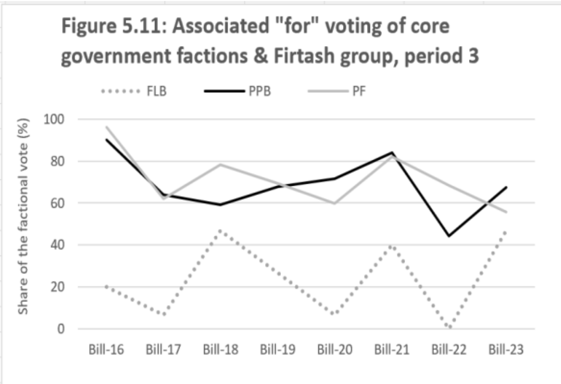


Figure 5.11: Associated "for" voting of core government factions & Firtash group, period 3

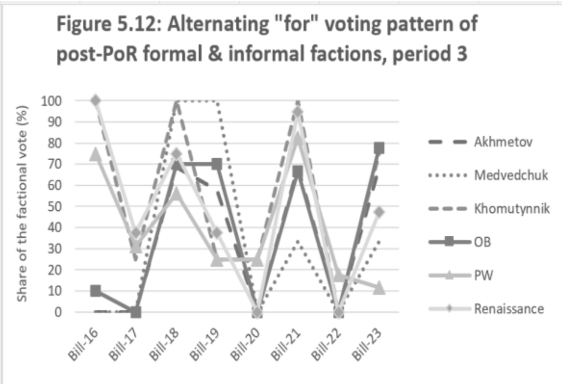


Figure 5.12: Alternating "for" voting pattern of post-PoR formal & informal factions, period 3

Sources: Verkhovna Rada, online archive of membership and legislative votes. Available: https://iportal.rada.gov.ua/. [Accessed September 13th 2021.] Berdinskikh, K. (2015). *Novoye Vremya*. Available: https://bit.ly/3jKZ01y. [Accessed June 24th 2020.] Romanyuk, R. and Kravets, R. (2016a), (2016b), (2016c), (2017a), (2017b), (2017c), (2018). *Ukrayinska Pravda*. Chernyshev et al (2017). LIGA.net. Available: https://bit.ly/3jYzohU.Own calculations. Note: FLB: Firtash-Lyovochkin-Boyko; PPB: Petro Poroshenko Bloc; PF: People’s Front; OB: Opposition Bloc; PW: People’s Will.

On the right-hand chart above (5.12), this is between three “old” oligarch groups (Akhmetov, Medvedchuk and Khomutynnik) and three formal “opposition” factions (the Opposition Bloc/ OB, People’s Will/ PW and Renaissance). Because the information conveyed is quite intricate, I have indicated old oligarch factions with different kinds of broken line, but formal factional shares with solid lines, each with a different marker (squares, diamonds or triangles).

The central point to take from the twin charts above is that the shares of MPs from these groups voting for reforms alternate broadly in unison on the same bills. The left-hand chart, 5.11, meanwhile, appears to show some level of continued co-ordination of some MPs from the Firtash-Lyovochkin-Boyko (FLB) group with the government parties.

Period 3: contributions of the formal factions supporting nine prosperity bills

Overall. In this period, marking a shift in parliamentary alliances, the voting contribution of the PPB and the PF in support of the eight political economy bills under consideration rose from an average of 32% of the votes of the Rada chamber in the second period to 34% in the third, mainly reflecting the improved factional coherence of the PPB. At the same time, the share of the vote at the command of the core government factions, already below the 50% threshold at the beginning of the Hroysman administration, fell further over the next 18 months.

For the smaller formal factions, the change in pattern of average factional legislative contributions to the prosperity reforms between periods is visualised in the bar chart below (5.13). Among the former coalition factions—Self-Reliance, Fatherland and the Radicals—the average positive voting contribution for prosperity laws dropped, from a combined 8.6 percentage points in the second phased to 5.3 percentage points in the third.

Conversely, the legislative support from the post-PoR “opposition” factions rose abruptly, from a contribution 2 percentage points under the Poroshenko-Yatsenyuk government to more than 7 percentage points during the first year and a half of its successor. Although the Opposition Bloc had the largest voting weight of the three post-PoR factions, the change in behaviour between periods was most marked for Renaissance and People’s Will. Legislative backing from a portion of the factionless deputies was also significant, but did not rise as fast.

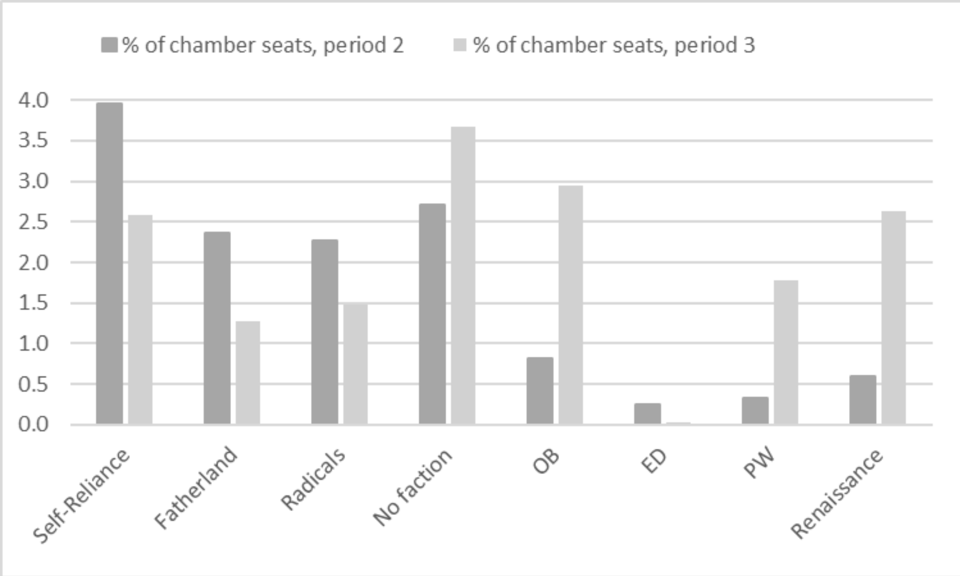


Figure 5.13: Change in average contribution of small Rada parties to "for" votes, periods 2 & 3. Sources: Verkhovna Rada, online archive of membership and legislative votes. Available: https://iportal.rada.gov.ua/. [Accessed September 13th 2021.] Own calculations. Note: OB: Opposition Bloc; ED: Economic Development; PW: People's Will.

Successful bills. Because backing for the first of the five adopted bills (number 16, on reform of the judiciary) from the remaining "core" coalition parties (the PPB and the PF) was so high, at a 45.8% combined (the lower, darker grey unpatterned cell at the base of the first stacked bar in Figure 5.14 below), it required only a little additional support to pass, with the combined "opposition" making the largest contribution, of 8.7 percentage points (the horizontally striped cell at the top of the stack, the bulk of it from Renaissance).

For bill 18, however, aimed at improving the investment climate, and bill 23, on energy-sector reform, a lower level of backing from the governing coalition necessitated the support of a broader range of factions, with the most substantial backing coming from the PoR successor parties, especially the Opposition Bloc, but with relatively strong support from Self-Reliance and the Radicals pushing it over the 50% threshold. In this period, Ukrainian sources report, the Radicals switched allegiance from the Firtash-Lyovochkin-Boyko (FLB) network to that of Akhmetov (Romanyuk and Kravets', 2017a; Andrusiv, 2018, p. 64; Chernyshev et al, 2017).

On top of PPB and PF backing, the support that allowed bill 21, on judicial reform, to pass came again from the post-PoR groupings (the Opposition Bloc and Renaissance). A conspicuous feature in the data in this period is the very low contribution of Fatherland, which had earlier been a stalwart of the pro-Euromaidan coalition. This may reflect the relative side-lining in this period of the Yatsenyuk-Kolomoyskyi political-business axis.

Rejected bills. For the three bills that were not adopted in the third period of analysis, the factional pattern of voting is similar to before. On each of these—bills 17, 20 and 22—the non-positive position of a large number of deputies from the governing factions, alongside large non-positive votes from the Opposition Bloc and "no faction" MPs, were the main factors causing the bills to fall short.

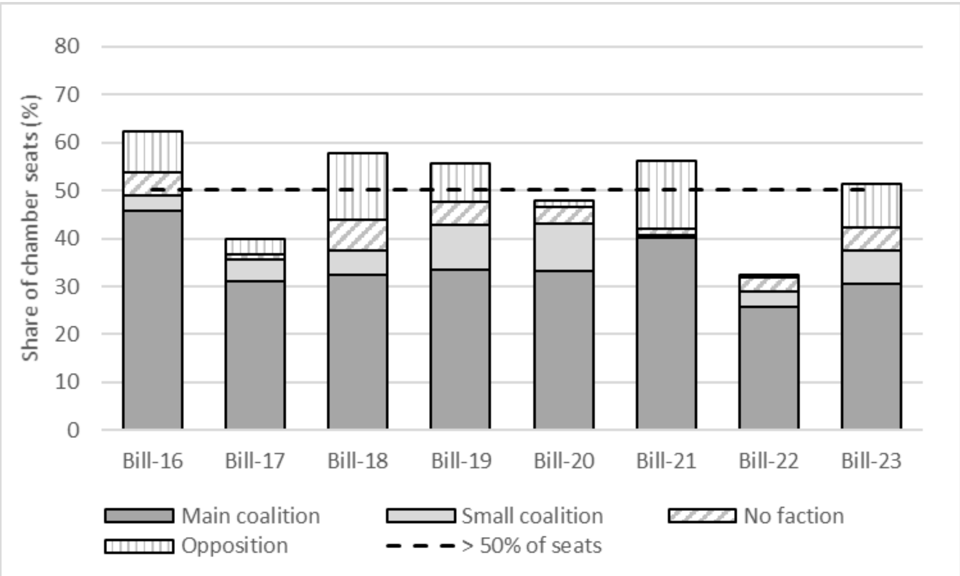


Figure 5.14: "For" votes of formal Rada factions on "prosperity" laws, Apr 2016-Dec 2017. Sources: Verkhovna Rada, online archive of membership and legislative votes. Available: https://iportal.rada.gov.ua/. [Accessed September 13th 2021.] Own calculations.

<u>Period 3: change in "for" contributions of "old" oligarch informal factions vs period 2</u>

Turning now to the direct influence in the Rada of the informal groupings most central to this study, the overall voting weight of the "old" oligarchic factions is quite low—perhaps somewhat above the 12-17% of Rada deputies indicated by the lists of aligned MPs compiled from local investigative sources (Table 5.2). Moreover, the degree of coherence of some oligarchic factions appears weaker than others. In combination, this is likely to mean that although these formations have the capacity to steer or nudge voting on particular bills, they lack the capacity individually, and perhaps even in combination, to determine legislative outcomes. This is in line with Heiko Pleine's view that oligarchs might best be seen as rule-takers (Pleines, 2016a, p. 105, 110). That is, the material resource power of oligarchs allows them to play a leading role of the informal political economy system which, however, they do not necessarily control fully.

Under the second Yatsenyuk government, the average positive contributions, or "yes" votes, of the "old" oligarch factions taken together was equal to just 2.7 percentage points of total possible chamber votes, rising to 3.9 percentage points under the Hroysman administration (the dotted and dashed horizontal lines in Figure 5.15 below), in line with the broader trend of increased official legislative co-operation with opposition forces.

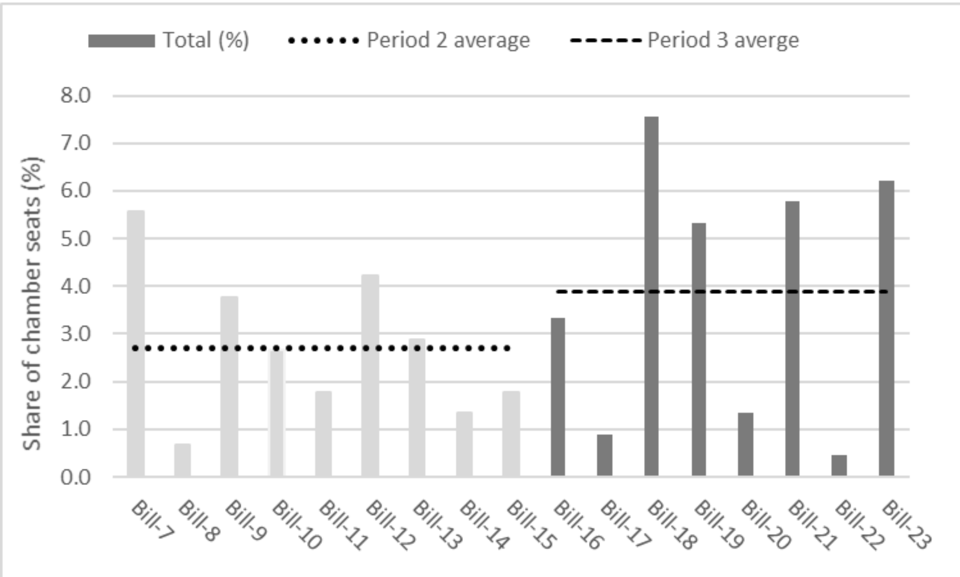


Figure 5.15: Total "old" oligarch "for" vote as a share of all Rada seats, periods 2 & 3. Sources: Verkhovna Rada, online archive of membership and legislative votes. Available: https://iportal.rada.gov.ua/. [Accessed September 13th 2021.] Berdinskikh, K. (2015). *Novoye Vremya*. Available: https://bit.ly/3jKZ01y. [Accessed June 24th 2020.] Romanyuk, R. and Kravets, R. (2016a), (2016b), (2016c), (2017a), (2017b), (2017c), (2018). *Ukrayinska Pravda*. Chernyshev et al (2017). LIGA.net. Available: https://bit.ly/3jYzohU. Own calculations.

With the individual bars on Figure 5.15 indicating the total “old” oligarch vote on each bill, this rise in effective support is indicated by the upward shift in the moving average line for the light grey (period 2) to the dark grey (period 3) bars.

During the periods of the eighth convocation examined here, the “old” oligarch factions helped to push the bills above the 50% threshold varied from one bill to the next. Thus, although in the second period all three of the larger old oligarch factions add some voting weight in favour of bill 7, none of the Akhmetov group vote for bill 9 and only the Firtash-Lyovochkin-Boyko (FLB) group gets behind bill 13 in significant numbers.

Under the Hroysman administration, too, although these informal groups in combination tend to make a stronger contribution, their support is irregular across bills. For all of the bills, however, the backing of the group of Vitaliy Khomutynnik is most consistent, on bill 16 contributing alongside Kolomoyskyi’s people (a backer of Renaissance), and on bills 21 and 23, alongside the Akhmetov and Firtash groups. This somewhat irregular pattern might reflect the perceived impact of the bill on the interests of each oligarch involved, but this picture is line with the view that Ukraine’s business-political networks are rivals who may share interests on some issues. The high combined contribution, equal to 7.6 percentage points, of most of these “old” oligarch informal groups to bill 18, for example, seems to show a confluence of interests on the issue of improving the investment environment.

The voting weight in the Rada of the oligarch groups appears relatively small, then. In Figure 5.16 below, this is marked by the lighter grey tips of the positive and negative contributions, represented by the size of the bars above and below the “zero” line. This does not mean, however, that they cannot between them make a direct difference between a bill’s adoption or rejection. Under the second Yatsenyuk government, for example, there are two instances in which the “for” votes of the “old” oligarch factions “tipped the balance” in favour of a bill, making a difference, albeit on votes that were already close to the acceptance threshold. These are bills 11 and 13, indicated on the chart by the two dark grey, downward-pointing arrows. On three other bills (eight, 10 and 15), the “not for/ absent” vote of the old oligarchic factions would have been sufficient to push the bills over the line had they gone the other way—this movement is indicated on the chart by the three upwardly curving arrows—and in this sense could be described as having "blocked" the bills from adoption. Similarly, in the third period, the vote of oligarch-linked deputies tipped the balance in favour of bills 18 and 23, but could be seen as holding back bills 17 and 20. However, their ability to tip or block particular votes, based on their voting weight in the Rada chamber alone, it should be stressed, is contingent on factors that they may not be able to influence.

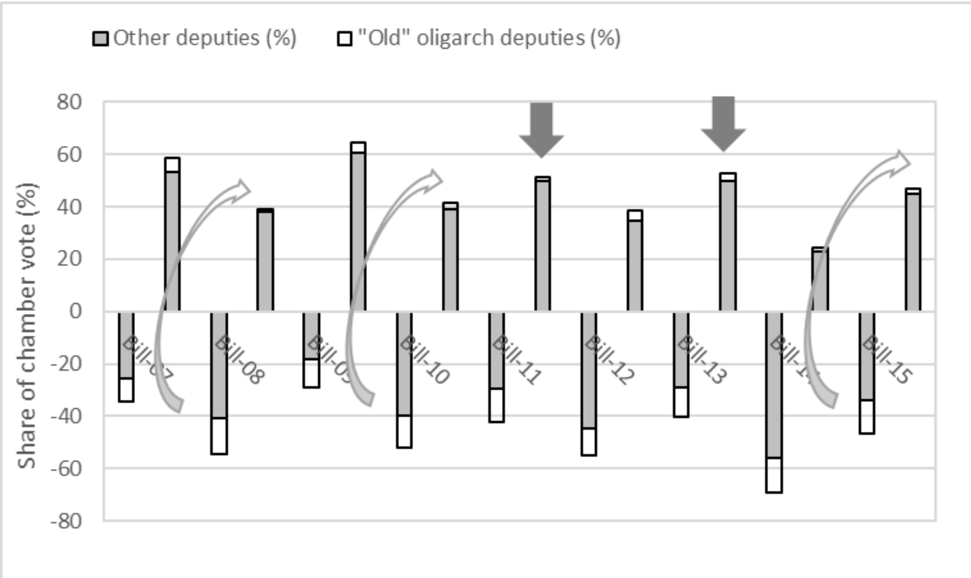


Figure 5.16: "For" & "not for" votes by "old" oligarchic groups vs others, Dec 14-Mar 2016. Sources: Verkhovna Rada, online archive of membership and legislative votes. Available: https://iportal.rada.gov.ua/. [Accessed September 13th 2021.] Berdinskikh, K. (2015). *Novoye Vremya*. Available: https://bit.ly/3jKZ01y. [Accessed June 24th 2020.] Romanyuk, R. and Kravets, R. (2016a), (2016b), (2016c), (2017a), (2017b), (2017c), (2018). *Ukrayinska Pravda*. Chernyshev et al (2017). LIGA.net. Available: https://bit.ly/3jYzohU. Own calculations.

VIII. Chi-square test on the relationship of membership of "old" oligarch groups and voting on institutional prosperity bills, December 2014 to December 2017

i) Outline

Using the data set already compiled, the final analysis of this chapter is a formal statistical examination of the relationship between membership of the "old" oligarchic Rada sub- and cross-factional groups and the patterns of voting on the selected "prosperity" bills in the eighth convocation.

To examine this relationship, two main sets of dichotomous variables (that is, with only two possible values) were created by re-categorising the observations of the existing variables in the roll-call data. The first, independent variable (the one assumed to be doing the causing) was coded zero for those deputies previously identified as belonging to one of the "old" oligarch groups (Table 5.2), while all other deputies were coded 1. The second, dependent variable—here, the voting results—were coded as zero for all "not for/ absent" votes and as 1 for all "for" votes. This allows Stata to perform the necessary statistical operations.

There are four stages to this analysis, each with its own method. These are i) cross-table analysis; ii) the chi-square test; iii) the Cramér's V measure of association; and iv) a controlled comparison of the results. A cross table is a device to aid the identification of systematic patterns in a relationship between categorical variables. It allows examination of the distribution of the dependent variable in terms of the categories of the independent variable. In this case, this means the distribution of combined "not for/ absent" votes and "for" votes, depending on whether or not the deputies in question have been linked to one of the "old" oligarchs. To check whether the relationships shown by the cross tables could have happened by chance, their statistical significance is then investigated using the chi-square test. The strength of any relationship is assessed using Cramér's V, a measure of association. The last stage, sometimes termed "elaboration", involves the use of a control variable to check for the presence of shared unseen factors underlying an observed relationship in the data. These methods are all appropriate for analysing relationships between nominal variables—that is, categorical variables composed of unranked observations.

Although evidence from the cross-table analysis appeared to support the hypothesis, showing a clear pattern of "old" oligarch groups failing to vote for prosperity laws more than other kinds of deputies, and although the chi-square tests and Cramér's V measures appeared to confirm for many of the votes a statistically significant relationship of at least moderate strength, the relationship was in many cases confounded when controlled for the broad distinction between coalition and opposition factions. That is, following the control procedure, in many instances the chi-square statistic was greatly reduced or disappeared, and many of the variable relationships were no longer statistically significant. This demonstrates the importance of the control stage for avoiding spurious causal inference.

ii) Cross-tables analysis, chi-square tests and measures of association

Cross-table analysis

Staying with descriptive statistics for the moment, the first stage of the analysis was to produce cross tables for the newly generated dichotomous variables. Bearing in mind the research question for this strand of the investigation, we might expect a cross-table analysis to reveal a systematic pattern of "old" oligarch MPs failing to vote for prosperity legislation (the research hypothesis). Tables 5.8 and 5.9 below show the results of a cross-table investigation for the second and third analytical periods of the eighth Rada convocation, respectively.

Table 5.8: Do "old" oligarch groups tend to vote against prosperity bills in period 2?

(%)	"Old" oligarch deputies	Other deputies	Share of all deputies
Bill-07			
Not for/ absent	**62.1**	**32.4**	37.1
For	37.9	67.6	63.0
Bill-08			
Not for/ absent	**95.5**	**51.6**	58.4
For	4.5	48.4	41.6
Bill-09			
Not for/ absent	**74.2**	**23.1**	31.1
For	25.8	76.9	68.9
Bill-10			
Not for/ absent	**81.8**	**50.7**	55.6
For	18.2	49.3	44.4
Bill-11			
Not for/ absent	**87.9**	**37.1**	45.0
For	12.1	62.9	55.0
Bill-12			
Not for/ absent	<u>70.8</u>	<u>56.5</u>	58.7
For	29.2	43.5	41.3
Bill-13			
Not for/ absent	**80.0**	**36.6**	43.3
For	20.0	63.4	56.7
Bill-14			
Not for/ absent	<u>90.8</u>	<u>71.0</u>	74.0
For	9.2	29.0	26.0
Bill-15			
Not for/ absent	**87.7**	**42.8**	49.8
For	12.3	57.2	50.2

Source: Verkhovna Rada. ARKHIV ZA SKLYKANNYAMY (online archive of legislative members & votes). Available: https://iportal.rada.gov.ua/. [Accessed September 13th 2021.] Own calculations.

The way to interpret these results is to compare the share of each MP group voting “for” and “not for” on each bill—that is, horizontally, across rows. For example, turning to the top left-hand corner of the results in Table 5.8 for bill 7, which addressed deregulation of the business environment and was accepted, this shows that, of the 66 deputies in this period identified earlier as being linked to the “old” oligarchs (see Table 5.2), 62% failed to vote in the bill’s favour, whereas only 32% of other MPs did so—a gap, or “effect” of almost 30 percentage points. On the voting “for” row, the proportions are reversed—that is, more than two-thirds of “other” deputies backed the bill, compared with just 38% of “old” oligarch MPs.

This broad pattern is replicated across all of the prosperity bills for the period of the second Yatsenyuk government, albeit with the effect varying in size. That is, a much larger share of the “old” oligarch vote is to be found in the “not for” cells. So, although the size of the gap in the shares of voting of the two MP groups is close to or above 30 percentage points for seven of the nine bills, it is somewhat smaller for two others (bills 12 and 14).

In the third period of analysis, however, the pattern becomes more erratic. On the one hand, the voting patterns of the (53) deputies associated with the “old” oligarchs in this period are similar to those of the second period for four out of the eight laws under scrutiny (bills 16, 17, 20 and 22). That is, the size of the effect of membership of the different MP groups shows the same polarisation in voting patterns, equal to a gap of 35 percentage points or more, in the shares of voting “not for/ absent” on each piece of legislation. On the other hand, for three of the others bills—19 and 21 and 23—the degree of polarisation in voting between the two categories of MP, while holding, declines considerably, and for a fourth (bill 18), is reversed (ie a lower share of “old” oligarch deputies failed to vote for the bill than did other MPs).

This change between the second and third periods of analysis is in line with the earlier finding of a break in voting patterns under the Hroysman administration, amid factional realignment in the Rada.

Broadly, nonetheless, the cross-table results may be interpreted, on first pass, as providing some evidence of a relationship that supports the research hypothesis—that is, that Rada deputies identified by local journalists as the parliamentary associates of some of prominent Ukrainian business-political leaders tended not to support reform bills associated with the creation of the political and economic conditions linked in modern economic theory with general economic prosperity.

Table 5.9: Do "old" oligarch groups tend to vote against prosperity bills in period 3?

(%)	"Old" oligarch deputies	Other deputies	Share of all deputies
Bill-16			
Not for/ absent	**67.9**	**27.3**	32.4
For	32.1	72.7	67.6
Bill-17			
Not for/ absent	**92.4**	**51.5**	56.7
For	7.6	48.5	43.3
Bill-18			
Not for/ absent	35.8	45.5	44.3
For	64.2	54.5	55.9
Bill-19			
Not for/ absent	<u>54.7</u>	<u>37.3</u>	39.5
For	45.3	62.7	60.5
Bill-20			
Not for/ absent	**88.7**	**41.2**	47.2
For	11.3	58.8	52.5
Bill-21			
Not for/ absent	<u>50.9</u>	<u>38.5</u>	40.1
For	49.1	61.5	59.9
Bill-22			
Not for/ absent	**96.2**	**61.0**	65.4
For	3.8	39.0	34.6
Bill-23			
Not for/ absent	<u>47.2</u>	<u>45.1</u>	45.4
For	52.8	54.9	54.6

Source: Verkhovna Rada. ARKHIV ZA SKLYKANNYAMY (online archive of legislative members & votes). Available: https://iportal.rada.gov.ua/. [Accessed September 13th 2021.] Own calculations.

<u>Chi-square test of statistical significance</u>

So, the results of the cross-table analysis appear to provide initial evidence of a broad, systematic relationship between categories of MPs and voting pattern. But what is the strength of the relationship? And where evidence for such a relationship is found, how likely is it to have happened by chance?

To address these concerns, we turn from descriptive to inferential statistics. The difference between them is that, whereas descriptive statistics summarise a data set to make their essential characteristics easier to grasp, inferential statistics are used to assess whether the descriptive findings about the data can be generalised—that is, how well they are likely to represent the whole population. In particular, the chi-square test provides a check for the statistical significance of the relationship between the two categorical variables identified in the cross-table analysis—that is, of how likely the relationship observed between them is to be explained by the systematic influence of the independent on the dependant variable, as hypothesised, rather than by chance.

The chi-square test has two components. The first part is the generation of the chi-square statistic, which measures the discrepancy between the actual frequencies of each cell of the cross table (that is, how often those observations occur) and their expected frequencies. Expected frequencies are the distributions that would be seen in each cell if the independent variable had no effect on the outcomes of the dependent variable, indicating the absence of a systematic influence (which is the assumption of the null hypothesis). In our case, this would happen if membership of one of the "old" oligarch groups had no impact on voting outcomes.

The contributions of each cell are calculated from their individual discrepancies, which are added together to arrive at the chi-square statistic. In Table 5.10 below, again taking bill 7 as an example, the discrepancy between the actual and expected frequencies of "old" oligarch MPs who failed to vote for the bill is 41 – 24.5 = 16.5. Squaring this and dividing by the expected frequency (the chi-square formula), we arrive at the chi-square contribution for this cell, of 11.2. Adding these contributions across each deputy group, shown emboldened in the table, and summing them with the combined contributions on the "for" observations for oligarch and non-oligarch groups below, we arrive at the chi-square statistic for this vote, of 21.1 (emboldened and underlined on the table). This is also listed directly below the body of the table as "Pearson chi2 (1). If the observed frequencies had conformed to the expected frequencies—that is, if the null hypothesis of an absence of a relationship had been true—the chi-square statistic would have been zero.

Broadly, the chi-square statistics for period 2 are at least as high as this one, suggesting the presence of a causal effect between the two variables across votes. While this remains the case for half of the laws in period 3, overall, the chi-square statistics for this group of bills tend to be lower.

Table 5.10: Cross table, chi-square calculation & read out for bill 7

	"Old" oligarch deputies	Not old oligarch deputies	Total
Not for/ absent			
actual frequency (no.)	41	115	156
expected frequency (no.)	24.5	131.5	156.0
chi2 contribution	**11.2**	**2.1**	**13.3**
group percentage	62.2	32.4	31.1
For			
actual frequency (no.)	25	240	265
expected frequency (no.)	41.5	223.5	265.0
chi2 contribution	**6.6**	**1.2**	**7.8**
group percentage	37.9	67.6	62.9
Total			
actual frequency (no.)	66	355	421
expected frequency (no.)	66.0	355.0	412.0
chi2 contribution	17.8	3.3	**21.1**
group percentage	100	100	100
Pearson chi2(1) = 21.0854		Pr = 0.000	
Cramér’s V = 0.2238			

Source: Verkhovna Rada. ARKHIV ZA SKLYKANNYAMY (online archive of legislative members & votes). Available: https://iportal.rada.gov.ua/. [Accessed September 13th 2021.] Own calculations.

The second part of the chi-square test is to establish a level of significance as a benchmark against which to compare the probability value (p-value) that accompanies each chi-square statistic. In the table directly above, it is listed at the bottom (Pr = 0.000). The level of significance marks the degree of risk that the researcher is willing to accept that they might reject a null hypothesis that is true (which is called a Type I error). If the p-value is equal to or below this threshold, then the null hypothesis can be rejected, leading to the conclusion that the relationship is statistically significant. If the p-value is above the threshold, we “fail to reject” the null hypothesis, which means we cannot conclude, at the chosen significance benchmark, that the relationship did not happen because of random variation. The bigger the chi-square statistic, the less plausible it is that the observed relationship could be a freak occurrence. In economics and the social sciences, it is common to set this threshold value at the p ≤ 0.05 level, and this is the one I will adopt. In results tables, by convention, different levels of significance are marked with asterisks, with one asterisk corresponding to a p-value of less than or equal to the 0.1 threshold; two, of less than or equal 0.05; and three, of less than or equal to 0.01 (written in short-hand as follows: * p ≤ 0.1; ** p ≤ 0.05; *** p ≤ 0.01). This practice is followed in Table 5.11 below, which summarises the results for the chi-square tests and the Cramér's V association measure on the sets of dichotomous variables for the two analytical periods. The shaded rows indicate bills for which the chi-quare statistic for the hypothesised relationship was not found to be statistically significant at the selected threshold.

Table 5.11: Results of chi-square tests & Cramér's V measure of association on the relationship of "old" oligarchic groups & voting patterns on prosperity laws in the Rada, 2014-17

	Chi-square test Pearson chi2 (1) statistic	p-value		Cramer's V value	Effect interpretation for df=1
Period 2, Dec 2014-Mar 2016: 66 old oligarch MPs					
Bill-07	21.085	0.000	***	0.2238	Medium small
Bill-08	44.169	0.000	***	0.3239	Medium
Bill-09	67.916	0.000	***	0.4016	Medium large
Bill-10	21.823	0.000	***	0.2277	Medium small
Bill-11	58.049	0.000	***	0.3709	Medium large
Bill-12	4.641	0.031	**	0.1050	Small
Bill-13	42.104	0.000	***	0.3166	Medium
Bill-14	11.189	0.001	***	0.1632	Medium small
Bill-15	44.257	0.000	***	0.3246	Medium
Period 3, April 2016-Dec 2017: 53 old oligarch MPs					
Bill-16	34.866	0.000	***	0.2895	Medium
Bill-17	31.575	0.000	***	0.2755	Medium
Bill-18	1.760	0.185	ns	-0.0646	Small
Bill-19	6.695	0.015	**	0.1180	Small
Bill-20	41.936	0.000	***	0.3152	Medium
Bill-21	2.997	0.083	ns	0.0843	Small
Bill-22	25.450	0.000	***	0.2456	Medium small
Bill23	0.077	0.781	ns	0.0135	Very small

Sources: Verkhovna Rada. ARKHIV ZA SKLYKANNYAMY (online archive of legislative members & votes). Available: https://iportal.rada.gov.ua/. [Accessed September 13th 2021.] Own calculations.
Note: Key: * p ≤ 0.1; ** p ≤ 0.05; *** p ≤ 0.01.

<u>Cramér's V measure of strength of association</u>

The Cramér's V formula is suitable for measuring the degree of correlation between nominal variables. As with the more familiar Pearson's correlation coefficient, used for numerical variables, a value of zero on the Cramér's V measure indicates no association between the variables, while a value of 1 indicates perfect association. A weakness of the measure is that it does not indicate the extent to which changes in the value of the independent variable improve our ability to predict the consequent size of the effect on the dependent variable.

Conclusion on the chi-square test

Extending the findings of the cross-table analysis, from Table 5.11 it can be seen that, for all nine bills in the second period, and for five out of eight in the third, the chi-square tests show these relationships to be statistically significant at the 0.05 benchmark. For these statistically significant relationships, the Cramer's V measure assesses the impact of the independent variable—that is, of the grouping into "old"-oligarch-or-not categories—as between medium small and medium large in the majority of cases. In these cases, then, we can reject the null hypothesis and conclude that the negative relationship between "old" oligarch faction membership and voting behaviour identified in the cross-table analysis is statistically significant at the 95% confidence level. The other three cases are marked "ns" (not significant) because, with chi-square statistics of close to zero, they yield p-values above the 0.05 threshold. This means that we cannot conclude in these cases that the relationship observed did not happen by chance or, in the formal language of statistics, we fail to reject the null hypothesis.

iii) Elaboration

Which control variable to choose?

So far, then, there appears to be some good evidence in support of the hypothesised relationship. However, the control stage of the analysis permits a check for the presence in the analysis of possible confounding factors—that is, a common third influence, as yet unconsidered that explains the observed relationship.

As possible alternative causal factors underlying the observed relationship, for which appropriate data are also relatively easy to use or collect, we could consider gender, for example, on the supposition that the political practices of the Ukrainian oligarchic system might also be patriarchally structured[19]. Informed in part by the findings of the previous analysis of this chapter, however, I decided on membership of the original government coalition, or the parliamentary “opposition” to it, as my control variable.

Initially, I had planned to create from the existing variables a new one with four categories, keeping the “core” coalition MPs of the president’s PPB and Yatsenyuk’s PF separate from those of the small coalition factions (Fatherland, Self-Reliance and the Radicals), in order to track differences in their behaviour. However, this raised a problem, which was that, according to the local investigative sources that I used, of the 74 deputies associated with an “old” oligarch across the two analytical periods, the small coalition factions contained only one. Consequently, I created a new variable assigning Rada deputies to one of three categories—either the five-party coalition; or the opposition, made up mostly of factions that emerged from the PoR; or those not participating in any of the formal Rada factions. The frequency distributions of Rada deputies between “old” oligarch and other MPs on this re-classification is shown in the Table 5.12 below.

Table 5.12: Distribution of "old" oligarch MPs by simplified formal faction in the Rada, Dec 2014-Dec 2017

(no.)			
Factions	**"Old" oligarch deputies**	**Other deputies**	**Total**
5-party coalition	14	295	309
Opposition	44	35	79
No faction	16	50	66
Total	**74**	**380**	**454**

Sources: Verkhovna Rada. ARKHIV ZA SKLYKANNYAMY (online archive of legislative members & votes). Available: https://iportal.rada.gov.ua/. [Accessed September 13th 2021.] Own calculations. Berdinskikh, K. (2015). Novoye Vremya. Available: https://bit.ly/3jKZ01y. [Accessed June 24th 2020.] Romanyuk, R. & Kravets, R. (2016a), (2016b), (2016c), (2017a), (2017b), (2017c), (2018). Ukrayinska Pravda. Chernyshev et al (2017). LIGA.net. Available: https://bit.ly/3jYzohU. [Accessed August 18th 2021.]

The most striking feature of this table is the uneven distribution of “old” oligarch deputies across factions— and, in particular, i) that the bulk of them appeared in

[19] Of the 454 Rada deputies in the eighth convocation, 50 were female.

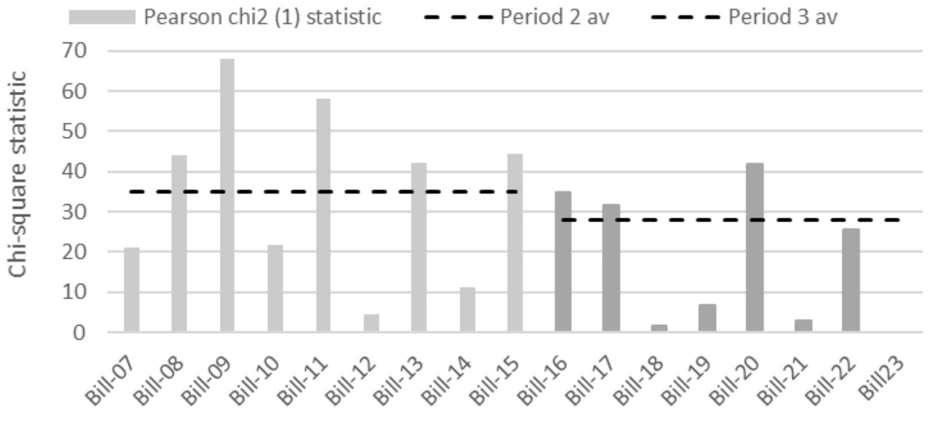
opposition ranks (44 of the 74 such deputies identified); and ii) that the majority of opposition MPs were also “old” oligarch MPs (44 out of 79), so supporting the intuition that the government vs opposition distinction may be important.

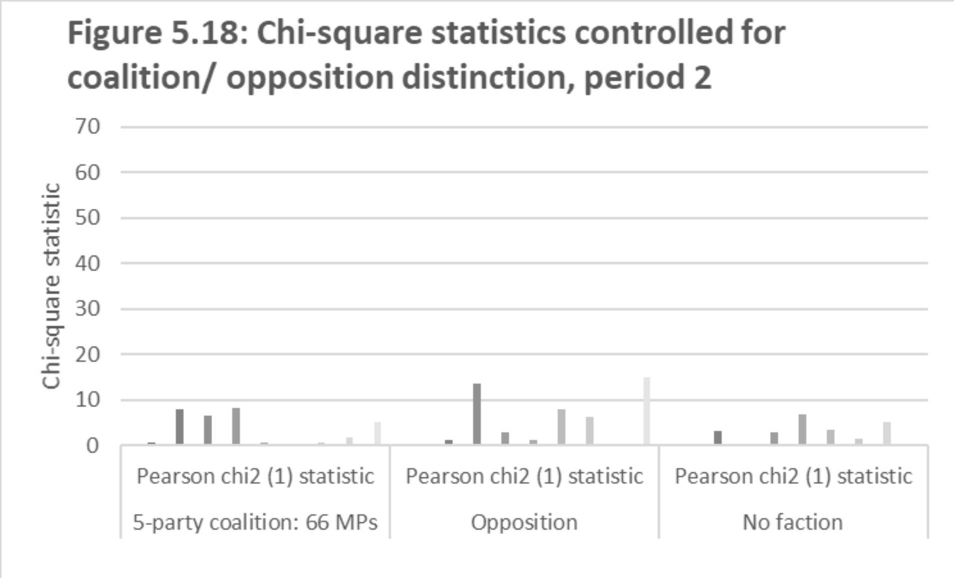
Control results

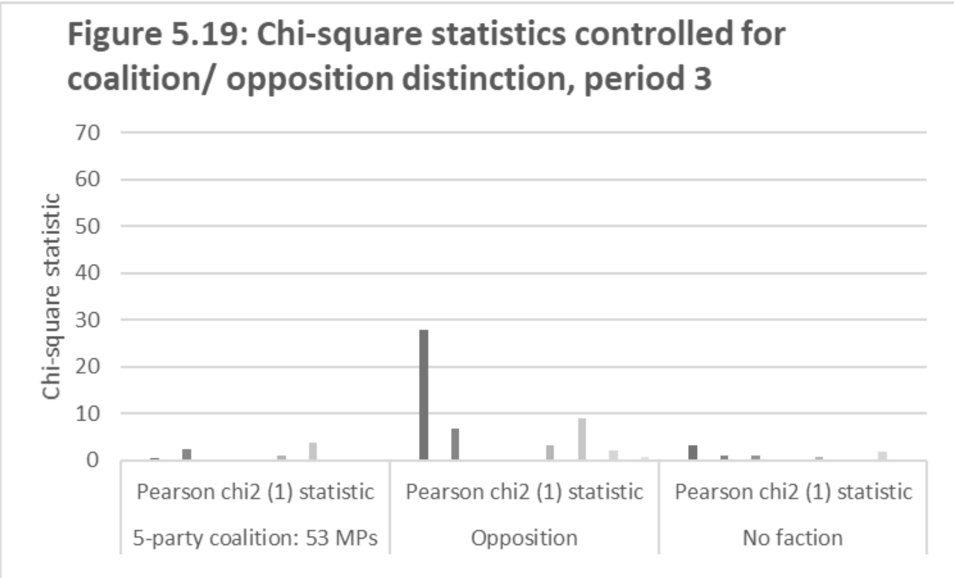
Controlling the hypothesised relationship of old oligarch MPs to voting behaviour for the division of Rada deputies into broad coalition or opposition groups, a quite different pattern of voting on the prosperity legislation emerges. In many cases, following control, the chi-square statistic was greatly reduced or disappeared, compared with the uncontrolled test, and many of the variable relationships were rendered no longer statistically significant at the 5% confidence threshold.

This is shown in the three charts below contrasting the scale of the chi-square statistics in the original (Figure 5.17) and controlled cases (figures 5.18 and 5.19), with the latter much smaller than the first across the board. Such a fall in the chi-square statistic is what we would expect when controlling for a third factor underlying them. This change in pattern points to “old” oligarch MPs as chiefly an opposition phenomenon, rather than one underlying the operation of the Rada as a whole.

Figure 5.17: Original chi-square statistics for relation of "old" oligarch MPs to failing to vote for prosperity legislation, periods 2 & 3







Sources: Verkhovna Rada, online archive of membership and legislative votes. Available: https://iportal.rada.gov.ua/. [Accessed September 13th 2021.] Berdinskikh, K. (2015). *Novoye Vremya*. Available: https://bit.ly/3jKZ01y. [Accessed June 24th 2020.] Romanyuk, R. and Kravets, R. (2016a), (2016b), (2016c), (2017a), (2017b), (2017c), (2018). *Ukrayinska Pravda*. Chernyshev et al (2017). LIGA.net. Available: https://bit.ly/3jYzohU. [Accessed August 18th 2021.] Own calculations.

C. Findings and conclusions: What role does the Verkhovna Rada play in Ukraine’s wider political economy regime? And how does the mode of political influence of oligarchs fit in with it?

IX. Introductory remarks and answer to the research question

The focus of this chapter has been an investigation of voting patterns in the Verkhovna Rada, following the Euromaidan revolt, on laws associated with the creation of conditions favourable to economic prosperity. Examining the interaction of the formal and cross-cutting dimensions of the legislative voting process, it contributes to the literatures on the operation of parliaments in post-communist regimes, and their systemic role, as well as on the links between politics, economic policy and economic development.

To answer the research question for the chapter directly, although some evidence was found for “associated voting” between formal Rada factions and “old” oligarch sub- and cross-factional formations on the selected political economy reforms, I did not find statistically robust evidence for the greater preponderance of direct blocking of prosperity legislation among “old” oligarch deputies, compared with other kinds of MPs, once this was controlled for the post-Euromaidan government vs opposition divide, as the bulk of the "old” oligarch deputies identified were associated with political forces close to the Yanukovych administration, who were driven into opposition by its demise.

With hindsight, when composing my research question at the project design stage, I probably brought to bear too liberal democratic a conception of the Ukrainian legislature, including a view of the material mode of political influence of business leaders as a deviant practice. At the end of this part of my research, however, I have a different view of the Rada and how it works within Ukraine's modern political economy system. Specifically, the relationship of “old” oligarch factions to political economy laws is probably less direct than originally envisaged, and should be viewed rather as mediated by the current "balance of power" within the evolving political economy structures of the oligarchy as a whole (ie the current state of relations of the main business-political networks to one another and to the currently dominant political network leaders). An account of some features of this revised view of the Rada forms the substance of my conclusions for this chapter, to which I will return following a brief recap of the chapter's main findings, on which these broader conclusions are based.

X. Key findings: Continuity of personnel and informal political influence practices

In this chapter, I set out some of the changes in the character and composition of the Ukrainian legislature—in terms of a marked reduction in representation of the left and right wings of the ideological spectrum, for example—between the convocations elected either side of the Euromaidan rebellion (that is, in October 2012 and October 2014). However, it is the continuities between convocations, of personnel, rules and practices, that must be emphasised to understand how the Ukrainian oligarchy as an institution of informal political and economic rule managed to survive.

Continuity of personnel was shown by the roughly one-third of MPs who retained a seat in parliament, with these "old hands" identified as a possible channel through which customary informal political practices were transmitted to new cohorts of MPs (learning "on the job" from the more experienced old hands), so helping to recreate the "regime" across Rada convocations, despite the high turnover of deputies. Relatedly, parliamentary opposition to a proposed change in the electoral rules ahead of the October 2014 general election kept in place the "mixed" electoral system, and so the single-mandate element of it through which many of the "old hands", as well as many of the "old" oligarch, sub- and cross-factional MPs, were able to retain a seat in parliament. This helps to explain why formal electoral rules have themselves so often been at the centre of political struggles in post-independence Ukraine. Moreover, many of the new "revolutionary" leaders were themselves products of the old system and will have become accustomed, through their usually long involvement in national politics, to informal practices as the regular way of proceeding, bringing with them to post-Euromaidan governments this understanding of how politics is done. In the persons of Rada legislators who also appeared on the Focus-100 rich list of the previous chapter was noted an overlap of key institutions of Ukrainian politics and business elite reminiscent of a "power elite", which helps to understand the processes by which institutional coherence is achieved. A second intersection, contained within the first, of the "old hands" and the "core rich" represents a smaller-still contingent of the most enduringly successful of

Ukraine's political economy actors, among whom oligarchs, as nationally politically active business leaders, were well represented.

Continuity in the operation of material resource power at the highest levels in Ukrainian political life between the pre- and post-Euromaidan periods was illustrated by revelations from the secret accounts kept under Yanukovych and of text exchanges under Poroshenko concerning the informal political practice of vote-buying in the Rada. This, it was suggested, should be seen as a backdrop against which to interpret the sub- and cross-factional voting patterns observed in the chapter's second analysis as materially informed. The mode of vote-buying itself can be refined into several "sub-routines" or styles, including the maintenance of a roster of MPs as "retainers" (as with Akhmetov); the continual negotiation and re-negotiation of one-off payments for votes on specific pieces of legislation (associated with the practice of Kolomoyskyi); or the purchase of a block of votes from one of the parties—such as the Radicals, or the rump of Fatherland under the newly freed Tymoshenko—whose role appears to be have been to market themselves to the competing business-political networks as reliable providers of voting services.

Although vote-buying was the "carry over" political practice focused upon in this chapter, it is, of course, just one in a much wider repertoire. Other central examples include media backing and electoral funding. Matsiyevsky notes, moreover, the routine conclusion of behind-the-scenes political deals within the Ukrainian elite, as well as an unofficial quota system for the distribution of government posts (2018, p. 349). Along with the "extractive" political and economic schemes outlined in the literature review, it is these practices, in sum total and joined up, that constitute the "regime". Moreover, the continuity and adaptation of the whole interconnected ensemble of political and economic practices across the "critical juncture" of the Euromaidan revolt is what is meant by the institutional reproduction of the oligarchy. It is the continuity of the ensemble of practices in the round that helps to explain the resilience of the oligarchy as an institution, even across periods of severe political-economic disruption. In turn, this is what an institutional structure is: relatively durable norms and rules, both guiding and constraining individuals' actions, that tend to be informed by, but somewhat independent of, the individuals that constitute them, as they arrive, depart and are replaced as institutional actors.

XI. Observational conclusions

i) The systemically appropriate looseness and flexibility of the Rada's internal organisational structures

From the analyses of this chapter, I come to a number of observational conclusions. The first is that a certain looseness or flexibility in both the internal organisational structures of the Rada—of parties, factions, MP groups, as well as the sub- and cross-factional formations—and of the alignments between them is not an incidental institutional feature but an integral one, expressive of the role of the Rada within Ukraine's political economy regime more broadly.

As in other areas of Ukraine's oligarchic system, where formal political or economic rules undergo regular contestation and alteration, or may be lightly observed, this means that the lines between parties, factions, and business-political networks are often blurred or porous, and associations with and between them fluid. This fluidity is shown not just by the transformation of formal factions in survival mode in a crisis, as with the disintegration of the PoR in 2014, but also by marked realignments of parliamentary forces, as after the collapse of the five-party coalition in 2016 (the systemic significance of which is discussed below).

This is because, as I have argued previously, the Rada operates as a venue for the deal- and alliance-making between the leaders of the strongest business-political networks, through which the transactional relationships of leading wealth-holders to the current holders of state office are continually made, broken and re-forged. Looseness or plasticity is therefore the organisational quality that facilitates and corresponds to a mode of elite politics conducted by way of flexible informal networks. That is, a relatively loose factional system emerged as the dominant internal organisational unit of the Rada in the course of the 1990s (Whitmore, 2004, p. 9, 92), and remains so because it suits and is explained by the broader "personalist" context of Ukrainian politics, in which the function of parties is subordinated to the workings of the informal network system (Andrusiv et al, pp. 63-64).

In this light, rather than a basically liberal democratic institution, tainted at the margins by the persistent transgressions of well-organised, well-financed miscreants, the Rada appears as an institution shot through with informal practices, the operation of which may have to reckon with, or work around and neutralise, the encroachment of formal democratic and ideological party norms. What appears as a transgression from the perspective of the norms of "market society", where it is assumed that business will be kept at arm's length from the formal political process, is in fact the Ukrainian system, where the practices of high politics and big business are more fused, working correctly according to its own internal logic.

It is possible that this is too harsh an assessment of the Rada as an institution, conditioned by my examination of the mechanisms for conversion of wealth into political influence through material control of parliamentary votes. The account that comes closest to this in the literature, however, is that of the UIF (Andrusiv et al, 2018), a Ukrainian think-tank reported to be close to Volodymyr Zelenskyi, the comic actor-manager who became president of Ukraine in April 2019.

ii) Deals and alliances magnify oligarchs' material resource power

On the data examined here, the absolute voting weight in the Rada of each of the oligarch groups appears insufficient to do anything but tip the balance for or against individual bills, as the situation permits. Of course, as suggested by the observation of "associated voting" between formal and informal Rada groups in the second analysis of this chapter, the total number of deputies under each oligarch's influence is not the only factor affecting voting outcomes, which are affected also by alliances with other faction leaders, allowing both bespoke and longer-lasting voting deals, presumed to be agreed in return for material or other rewards. This suggests a second conclusion. This is that, for leading oligarchs, the main purpose of material control of Rada votes may be that it buys them a "seat at the table" with the other power resource holders, and their networks, allowing the negotiation of deals and of broader alliances that not only amplify individual oligarch's political influence, but are also a more reliably and predictably effective means of achieving legislative goals. That is, they need to buy MPs votes to take part in the transactional deal and alliance making between networks that is at the heart of the politics of the Ukrainian elite, and it is through the process of deal- and alliance-making that they are best able to protect and augment their material interests.

iii) Factional realignment in the Rada signals full reconstitution of oligarchic system following the temporary institutional disruption caused by the collapse of Yanukovych administration

Probably the most striking finding of the analysis of this chapter is that, with the institution of the Hroysman government, there was a marked break in the pattern of parliamentary support for political economy reforms, distinguishing the third period of analysis from the previous two. This corresponds to a significant realignment of parliamentary and network forces—making this episode a good example of the organisational flexibility referred to above—linked both to the disintegration of the five-party coalition, as well as to the struggle between competing political-economic "pyramids" for pre-eminence, encouraged in part by the reversion to the 2004 premier-presidential constitution.

So, while under the interim government it was the former parliamentary opposition parties, propelled into office by the outcome of the Euromaidan protests they had supported, who were the key backers of economic reform legislation, they required additional parliamentary support—crucially, from the PoR successor formations most eager to distance themselves from the Yanukovych administration. Early on in the rule of the second Yatsenyuk government, however, with the pro-Euromaidan forces at the zenith of their political power, no such support from the much-reduced PoR successor factions was necessary for the passage of "prosperity" legislation, and they were side-lined. Under the Hroysman administration, in contrast, although the parties of Poroshenko and Yatsenyuk remained the twin pillars of legislative support for the government's programme, there was a clear rise in the propensity of the successor factions to the PoR, as well as the "old" oligarch deputy groups, to vote in favour of the government's prosperity legislation.

The significance of this is that it indicates a third or final stage of "reintegration" into formal politics of both the "old" oligarch networks and the remains of the Yanukovych era elite—and with it the full recreation of the oligarchy in the Rada as a transactional relation between successful politicians, state officials and the main business-political networks—following the brief phase of the rhetoric of “de-oligarchisation” in the immediate aftermath of the Euromaidan victory. Earlier stages in the process of progressive institutional reintegration would include the appointment in early 2014 of leading oligarchs as a defensive measure against Russian military incursion, followed by the reliance on oligarch’s financial and media backing in the electoral campaigns later that year.

As a consequence of this shift in alliances, the level of support for prosperity laws rose across the Rada as a whole. This suggests, somewhat counterintuitively, that the new arrangement proved more effective as a vehicle of support for the government’s legislative programme than the five-party coalition under Yatsenyuk. The question is, of course, in return for what? This is a key subject of the investigation of the next chapter.

<u>Chapter Six.</u> The Ukrainian oligarchy in action, transforming political influence into wealth: post-Euromaidan energy rent-extraction schemes, amid energy-sector reforms

A. Introduction and approach

<u>I. Why energy-sector case studies?</u>

The political economy framework outlined earlier in this study points to oligarchy, centrally, as the politics of wealth defence, a form of extractive or exclusionary politics, while suggesting that extractive political institutions tend to foster extractive economic ones (Chapter Two). The previous chapter (Chapter Five) examined voting patterns in the Verkhovna Rada (parliament) as a key institutional setting for certain political practices—that is, of the conversion of material resource power into political influence by means of control of parliamentary votes and, through this, the ability to forge parliamentary deals and alliances with the leaders of other business-political networks—crucial to the reproduction of Ukraine's extractive political economy regime. But what do extractive economic practices look like in contemporary Ukraine? And how do they connect with the extractive mode of politics that obtains?

To answer these questions, this chapter focuses on oligarchic rent-extraction schemes in the Ukrainian energy sector, set against a backdrop of sectoral reform and political change. Among the reasons for choosing Ukraine's energy sector for this strand of my research is its importance to an economy that has historically been highly energy intensive, reflecting structural and technical inheritances from the Soviet era. The reason for narrowing the focus still further to the gas industry is that it, in turn, has been central to the formation of the Ukrainian oligarchy since its inception in the 1990s, largely owing to the size of the economic rents available (Balmaceda and Rutland, 2014).

To recap, in orthodox economics, an economic rent implies a level of income above what is needed to induce the delivery of factor supplies (land, labour and capital) to the market (Stilwell, 2019, pp. 101-102). On the one hand, temporary or "dynamic" rents are seen as a vital mechanism for the proper operation of a market economy, facilitating both innovation and adjustment to economic shocks, as price changes signal to investors and suppliers the location of profitable business opportunities, so encouraging the reallocation of resources between sectors and re-equilibrating market supply and demand. When rents are persistent, however, they may be considered a sign of market failure (Hayek, 1948; Sethi et al, 2017). Less formally, such rents can be thought of as increasing one's share in current wealth, without contributing to the creation of new wealth (Matsiyevsky, 2018, p. 349).

The kind of politically constructed rent-extraction opportunities that have tended to replenish the material basis of elite rule in post-communist Ukraine can frequently be considered as persistent forms of economic rents. According to a well-informed source, corrupt energy schemes in modern Ukraine have generated annual flows of rents of "up to 5% of the country's GDP (approximately £3.5bn) in peak years" (Balmaceda and Rutland, 2014). In this regard, Ihor Bakai, a former head of Naftogaz, Ukraine's national oil and gas company, comments that "all of the major political fortunes [in Ukraine] were made on the basis of Russian oil and gas" (quoted in Balmaceda, 2013, p. 151). Lastly, the gas-sector rent-seeking schemes provide examples for comparison across time of extractive economic practices with a family resemblance which, in combination, have had a lasting impact on, and been significantly affected by, Ukraine's political economy institutions.

II. Contribution, "contextualising" tools, main findings and argument

The main original contribution of this chapter is an analysis of rent-extraction schemes in the Ukrainian gas industry following the severe political, social and economic crisis of 2014-15, helping to concretise an understanding of what the overlap of the political and economic spheres looks like in practice. This is done by comparing them with earlier "benchmark" schemes in terms of the actors, institutions and mechanisms involved, and the relations between them, in an evolving political context. In the first half of the chapter, I develop two contextualising "tools" to aid analysis of the operation of these post-Euromaidan schemes in the second half. By emphasising context, concrete detail and specificity as a mode of analysis, this chapter draws on the approach of “old” institutional economics, a brief account of which was given at the end of Chapter Two.

The first contextualising tool is an account of the long-term problems of reform of the energy sector, its dysfunctional condition at the end of the Yanukovych presidency and relevant aspects of sectoral reform from 2014, especially on the adjustment of household gas tariffs, diversification of gas supplies away from Russia, market regulation and the restructuring of Naftogaz. These are essential to the story because they alter the incentive environment in which rent extractors operate and the opportunities available to them. The second tool is an account of the operation of two large intermediary rent-extraction schemes that dominated the Ukrainian gas sector earlier in the post-communist era. The first concerns the United Energy Systems of Ukraine (UESU) gas-supply business run by Pavlo Lazarenko in the second half of 1990s. The second focuses on RosUkrEnergo (RUE), whose main owner on the Ukrainian side, Dmytro Firtash, was the leading Ukrainian gas oligarch of the 2000s.[20] The purpose of these intermediary accounts is to provide a benchmark against which to compare the case studies of gas-sector rent-extraction schemes in the post-Euromaidan era, thereby bringing out elements of continuity and change in the operational features of these schemes in their evolving political-institutional environment. A key output of this analysis is a “taxonomy” of rent-extraction schemes in the Ukrainian energy sector over the past three decades (Table 6.4), and a brief account of what this suggests about the nature and mode of regeneration of the contemporary Ukrainian oligarchy as a whole.

A stylised characterisation of Ukraine’s evolving national political economy governance structures is a third contextualising device. Focusing chiefly on the contrast between the Yanukovych and Poroshenko eras, it shows how the dominant operational relations between key formal political actors in the

[20] In business, an intermediary is a firm that stands between the producer and the buyer, specialising in value-adding services such as distribution, branding or sales. In the case of the succession of the energy intermediaries established in post-independence Ukraine, however, they are often charged with merely inserting themselves into the supply chain without adding value or performing any economically useful function, existing merely as vehicles for extracting economic rents for business-political elites.

government and state apparatus on the one hand, and the politically involved leaders of large business organisations (oligarchs) on the other, shifted across presidencies, post-independence. Originally developed for this chapter, it was relocated to the literature review of Chapter Three, both to position it closer to my account of the generative phase of the Ukrainian oligarchy and to provide a backdrop against which the subsequent empirical investigations could be interpreted.

Among the main findings of the chapter are that, although Russia's military interventions in Ukraine following the collapse of the Yanukovych administration helped the Ukrainian oligarchy to survive the body blow of the Euromaidan revolt, the halt to direct gas imports from Russia that it induced proved one of the main "anti-corruption" measures of the period. This and other developments, especially the stepped rise in household gas tariffs, were among the policy measures that helped to restrict the scope for rent-seeking opportunities, especially at the height of the crisis in 2014-15. A key argument of this chapter, however, is that rent-seeking opportunities began to open up again in the gas sector thereafter, and to shift to other parts of the energy sector, following the passing of the economic crisis and a re-balancing of political-economic forces domestically from 2016, which strengthened the position of the network alliance centred on Petro Poroshenko as president, at the expense of the one around Arseniy Yatsenyuk.

The analysis of the politically enabled context for elite rent-extraction schemes is placed last of the empirical investigations of my dissertation. As with the other empirical chapters, this positioning reflects notion of political institutions as conditioning economic ones (so that the Rada chapter was placed before the current one, on energy). By detailing a series of cases in the energy sector showing how key business-political networks are able to convert their influence back into wealth, the chapter also completes the circuit of the "currency flow" model of institutional reproduction sketched in the opening chapter.

B. Contextualising tools

III. Reform of the Ukrainian energy sector

i) Energy sector reform before 2014

On independence in 1991, Ukraine inherited from the Soviet Union an economy, centred on heavy industry, that was "hooked on cheap hydrocarbons" (Balmaceda and Rutland, 2014). Within a decade, the share of industry in Ukraine's economic structure had fallen from one-half to around one-third, owing to a long and deep "transition" slump (Turley and Luke, 2011, p. 77). However, the energy intensity of the Ukrainian economy—the ratio of energy used to output produced—remained very high in international comparison, while the problem of overreliance on Russian natural gas imports continued into the Yanukovych presidency. Whereas the first acted as a significant drag on economic efficiency, the second proved a chronic threat to the country's energy security—seen most clearly in Russia's repeated use of its position as sole gas supplier to coerce political and economic concessions, of which the ceding of control of most of the Soviet Black Sea fleet in 1997, in return for the cancellation of Ukraine's energy debt, is an early example (Balmaceda, 2013, pp. 103-104).

In his assessment of the situation of Ukraine's energy sector before the onset of post-Euromaidan reforms, Karel Hirman argues that, by early 2014, there had been "no changes in the structure of the energy sector in Ukraine over the past 20 years" (2019, p. 78). It is not that no attempts at reform of the sector have been made, however, but rather that each time they were stopped in their tracks by "vested interests", a common euphemism for the association of economic interest groups and political power holders that I am calling "the oligarchy".

The problem of large-scale corruption in Ukraine's gas-supply business was not really addressed until 2000, when Viktor Yushchenko, as head of a reforming government, appointed Yuliya Tymoshenko as energy minister. In this role, Tymoshenko attempted to eliminate barter in the trade in Turkmen gas, to shore up the finances of Naftogaz and to counter corrupt schemes in domestic energy distribution. Most importantly from the perspective of this research, she eliminated ITERA as “intermediary” in the post-Soviet gas trade, so reverting to direct trade between Naftogaz, Ukraine’s state energy holding, and Gazprom, its Russian counterpart. In early 2001, however, under pressure from the domestic gas-trading lobby, on whose business interests these measures had impinged, Tymoshenko was sacked by the president, Leonid Kuchma, and the Yushchenko government fell a few months later, while the intermediaries were soon re-established in the energy trading business (Havrylyshyn, 2017, pp. 230-231).

Two further concerted attempts at energy reform were made, in 2005 and in 2007-09—on each occasion again led by Tymoshenko, this time as prime minister. In 2005, in the wake of the Orange Revolution, in which she played a leading role, Tymoshenko attempted to remove RosUkrEnergo (RUE) as the main intermediary in the gas trade with Russia, but was sacked that September by Yushchenko, now president, and RUE was reinserted into the gas business in a still more lucrative role (Havrylyshyn, 2017, p. 231). In a dispute with Russia over the terms of the new gas contract in 2008-09, Tymoshenko, back heading the government, went over Yushchenko’s head to strike a deal with Vladimir Putin, her Russian counterpart, restoring once more direct trading links between the two countries’ state energy enterprises in return for introducing a “European” price formula—that is, by agreeing to increase the price that Ukraine paid for its gas imports from Russia. From Tymoshenko’s perspective, this may have been aimed, in part, at cutting financial flows to Dmytro Firtash, a key of backer Yanukovych, her main political rival in the then upcoming 2010 presidential contest (Hale, 2015, p. 336). From this, Balmaceda suggests that a large part of the infighting in the Orange camp from 2005 was driven by contestation over the division of gas rents in the energy trade with Russia (Balmaceda, 2013, pp. 122-123).

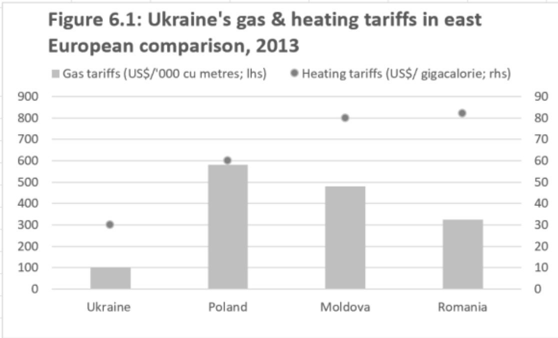
The events leading up to the 2009 deal—in particular, another halt in Russian gas supplies that winter—seem finally to have prompted the Ukrainian leadership, during the presidency of Viktor Yanukovych, to start to reduce reliance on Russia and diversify the country’s gas imports, if only to reduce the effectiveness of Russia’s coercive hold over them in the future (see Figure 6.4

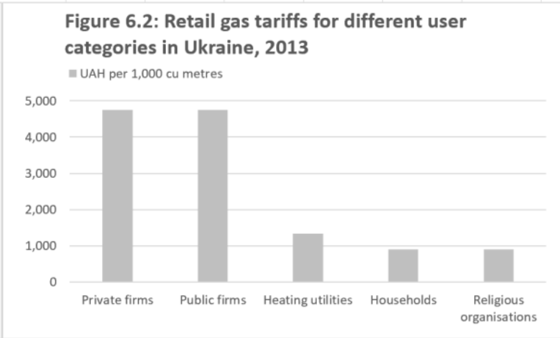
below, where the volume of gas imports is indicated by the height of the middle-grey bar for each year). However, Yanukovych's victory against Tymoshenko in the presidential contest of 2010 paved the way for Firtash, as one of his main backers, to reinvent his intermediary scheme in 2011 under a new name, OstChem. In late 2011, as a way of eliminating his main rival from the political scene, Yanukovych was also able to use the 2009 energy deal with Putin as a premise for the imprisonment of Tymoshenko on charges of abuse of office (Wilson, 2015, p. 347).

From this brief account, it is possible to summarise the story of reforms in the Ukrainian energy sector before 2014 as follows: starting late, and usually triggered only by a serious economic or political crisis, energy reforms were often truncated once the danger had passed and usually quickly reversed.

ii) The dysfunctional condition of the energy sector in 2014

In late February 2014, therefore, at the point where the Yanukovych period gave way to the post-Euromaidan era, the energy sector was rundown and dysfunctional. Perhaps the most striking expression of this was the very low household tariffs for gas and heating. For example, according to IMF data, reproduced in the charts below, in 2013 some of Ukraine's east European neighbours were paying between three and six times as much as Ukraine for domestic gas, and between two and three times as much for home heating (IMF, 2014b, pp.17-18). In particular, Figure 6.1 shows that, while the price of gas was close to US$500 per 1,000 cu metres for Moldova and US$600 for Poland, in Ukraine it was just US$100 (the light grey bars on the chart, read against the left-hand scale); and while heating cost US$30 per gigacalorie in Ukraine, it was around US$80 in Moldova and Romania (the dark grey dots, read against the right-hand scale). At the same time, in Ukraine different groups of users were subject to different gas tariffs (Figure 6.2), with private- and most public-sector firms paying the full cost-recovery price of around UAH4,750 (US$594) per 1,000 cu metres, but households and heating utilities paying around one-quarter of the cost price of the gas consumed, closer to or below UAH1,000 (US$125). Low household energy prices have frequently been identified as a key source of corruption in Ukraine, offering members of the elite significant rent-seeking opportunities. Hirman suggests that, in addition, they were kept low in part to compensate consumers for poor service and unreliable infrastructure (Hirman, 2019, p. 75). However, low energy prices also gave households a stake in the dysfunctional situation, which helps to explain why it endured.





Source: Both adapted from IMF (2014b, p. 18).

Creating weak incentives to economise on energy use, while undermining the incentives and ability of energy enterprises to invest in exploration, production, and distribution, selectively low energy prices were both a cause and symptom of sectoral dysfunction, manifesting as a range of negative economic effects, including low energy efficiency, high levels of pollution, and chronic damage to the public finances. Figure 6.3 below, for example, presents World Bank data on energy intensity for a selection of European economies and the US in 2013, with the value of economic output produced from the same amount of energy inputs rising from left to right.

This chart shows that while in 2013 Ukraine was producing output worth around US$5 per kilogramme of oil equivalent, in the UK, it was closer to US$15 per kilogramme, or around three times more efficient.[21] Meanwhile, in early 2014, Ukraine’s carbon intensity, a measure of the environmental impact of its economic production, was twice the world average (Balmaceda and Rutland, 2014).

[21] It is nonetheless likely that the degree of energy inefficiency in Ukraine may be exaggerated somewhat by the failure of its GDP statistics to capture the activity of the shadow economy, which remains sizeable (Balmaceda and Prokip, 2021, p. 140).

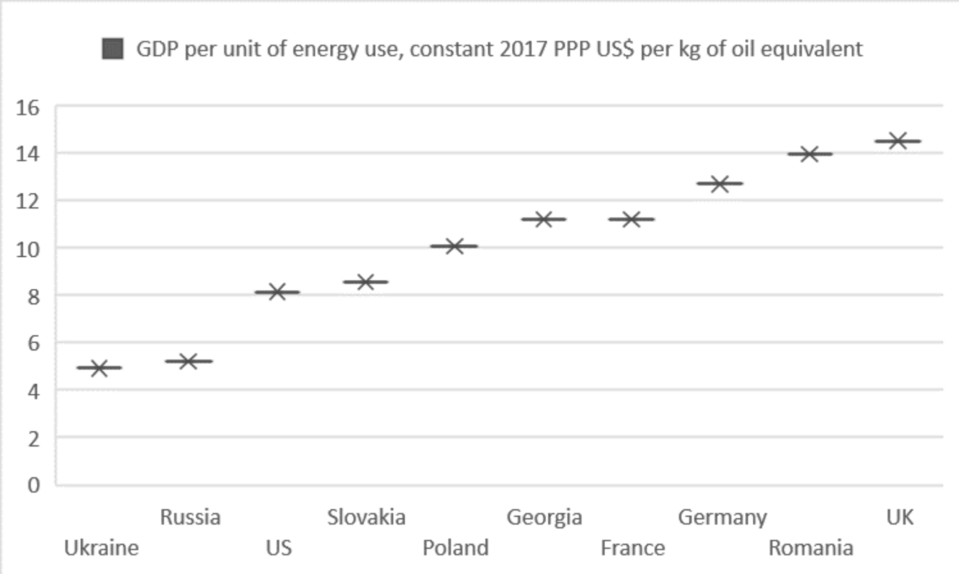


Figure 6.3: Ukraine's energy intensity of production in international comparison, 2013. Source: World Bank Data Bank, *World Development Indicators*. Available: https://bit.ly/3l83fF9. [Accessed July 24th 2021.]

On public finances, low domestic energy tariffs produced large persistent losses at Naftogaz, which were covered by the state (Table 6.1 below shows these for 2010-15). A Ukrainian think-tank cites a range of estimates for the scale of damage to the public finances from under-priced energy tariffs. One puts total losses to Naftogaz in 2005-15 at UAH620bn (not easily convertible into US dollars because of the weakening of the hryvnya:US dollar exchange rate), while another assesses the cost to the government at US$53bn over this period. A third source, the IMF, calculates gas subsidies at the equivalent of 5% of GDP in 2012, and all energy subsidies at 8% of GDP (Burakovsky et al, 2018, p. 25).

From the perspective of this study, however, the main deleterious effect of low household energy prices is that they acted as an incentive for the reproduction of Ukraine’s underlying political economy regime, the oligarchy, as the persistence of politically licensed schemes of financial extraction militates against the development of economic practices and habits associated with “inclusive” economic institutions. In everyday parlance, we would say that low energy prices “feed corruption”. The result, however, is that, “in the long run, ordinary Ukrainians are paying the price of being trapped in an economic model that depends on rent extraction rather than investment in competitive industries" (Balmaceda and Rutland, 2014).

iii) The main energy reforms from 2014

During the Yanukovych presidency, the pursuit of populist economic policies at home, such as a boost to public-sector pay ahead of the 2012 parliamentary election, alongside the maintenance of an overvalued exchange rate, produced significant internal and external macroeconomic imbalance—that is, very large fiscal and current-account deficits (IMF, 2014a, pp. 5-6). In early February 2014 the soon-to-be-outgoing authorities were forced by the low level of reserves to abandon the fixed exchange rate and switch to a floating currency regime. With the domestic political crisis reaching its violent denouement at the end of the month, triggering Russia's military takeover of Crimea, by early 2014 the conditions were in place for these macroeconomic imbalances to begin to unwind rapidly, destabilising the Ukrainian economy. In 2014, therefore, the return to energy-sector reform was again driven by crisis—albeit this time of a more serious and general nature—rather than by political foresight or choice. Energy reform became central to the macroeconomic stabilisation plans of Arseniy Yatsenyuk's interim government, owing to its impact on the public finances—that is, on the size of the government's budget deficits and the level of public debt.

Because of the circumstances of their prompting, this time around, the momentum behind energy reforms went further and lasted longer than before. This was not just a reflection of the scale of the crisis, but also of the time it took for "vested interests" to recover a foothold in politics, which only happened in stages. When it did, the authorities' backing for energy sector reforms seemed to lose steam. With opportunities stymied in the gas trade, owing to the reorientation of gas imports away from Russia, the attention of key oligarchs switched to rent-seeking schemes in other parts of the energy sector.

The energy reforms undertaken in Ukraine from 2014 were set out in the interim government's Letter of Intent to the IMF and in an accompanying Memorandum of Economic and Fiscal Policies of April 2014 (IMF, 2014a, pp. 59-60; p. 63; pp.

72-74), in practice covering four main areas, of household energy tariffs, energy diversification, market regulation and institutional restructuring. By restricting opportunities for corruption, gas-sector reforms reduced losses to the budget by US$3bn per year in 2014-18, according to a Ukrainian think-tank (Burakovsky et al, 2018, p. 7).

Of the energy reforms, the first was considered the most controversial politically, while the second had perhaps the strongest impact on reducing the availability of rent-seeking opportunities. Although the reforms on market regulation and the restructuring of Naftogaz appear most straightforwardly related to the aims of the chapter, which is to situate an analysis of post-Euromaidan energy-sector rent schemes in their historical, political-institutional and policy context, each of the reforms are important, both separately and in combination, because they changed the structure of opportunities facing rent-seeking actors across the sector. By following the progress, delays or setbacks on these reforms, it is possible to chart the impact of developments in both popular democratic and elite politics—in this instance, the re-alignment from 2016 of business-political networks, their reintegration into formal institutional politics and the corresponding strengthening of the network "pyramid" around Poroshenko, at the expense of the one around Yatsenyuk. This corresponds, I suggest, to an increasing resistance from the authorities to implementation of agreed energy reforms and so a re-opening of energy sector rent-seeking opportunities, albeit on a smaller scale than before.

Reform of energy tariffs

A central aim of the reforms was to raise residential tariffs for gas and heating to cost-recovery level, in the process eliminating the gap with the prices paid by industry (IMF, 2014a, pp. 20-22). Although designed to address some of the serious, chronic economic side-effects of low household energy prices noted above—including "fiscal drag", overconsumption and inefficient use of energy resources, opportunities for arbitrage and low energy-sector investment—amid a deep recession, this policy was "the most politically and socially sensitive topic of the entire four-year period" (Hirman, 2019, p. 79). Nonetheless, under successive Yatsenyuk governments, household tariffs were raised in three steps between May 2014 and April 2016 (see Figure 6.6 below), so that the price more than doubled over this period, from a maximum of almost UAH3,000 per 1,000 cu metres in early 2014 to almost UAH6,900 in May 2016, according to Naftogaz's price archive (Naftogaz, 2018). The most important result of this, making it one of the "flagship" economic policy success stories of the post-Euromaidan period, was the complete elimination of the "quasi-fiscal" deficit at Naftogaz by 2016, two years ahead of schedule, marking the first year of the company's contribution to the budget since 2011, and first of doing without a government subsidy since 2006 (Burakovsky et al, 2018, p. 26). This development is shown in the Table 6.1 below, with the "quasi-fiscal" deficit at Naftogaz, already significant before the onset of the crisis, shooting up to the equivalent of 5.5% of GDP in 2014, so lifting the overall shortfall in public spending to 10% of GDP, which is very high. This, in turn, was one of the factors contributing to a dramatic rise in the public debt burden, from the equivalent of 40% of GDP in 2013 to 70% the following year (another key factor was the collapse of the exchange rate). Owing mainly to the tariff increases, the deficit at Naftogaz shrank rapidly to the equivalent of less than 1% of GDP the following year, before disappearing altogether in 2016-17. At the same time, the impact of these measures on Ukrainians' already low living standards, by contributing to a slide in political support for the new authorities in the polls (Razumkov Centre, 2017), seems to have motivated the government of Arseniy Yatsenyuk to backtrack somewhat thereafter, in late 2015 reaffirming the operation of price controls in the household segment (Burakovsky et al, 2018, p. 29, footnote 41).

Table 6.1: Ukraine's public finances, 2010-17
(% of GDP)

	2010	2011	2012	2013	2014	2015	2016	2017
General government balance	-5.8	-2.8	-4.3	-4.8	-4.5	-1.2	-2.2	-2.2
Naftogaz/ "quasi-fiscal" deficit	**-1.6**	**-1.5**	**-1.2**	**-1.9**	**-5.5**	**-0.9**	**0.0**	**0.0**
Overall budget balance, incl Naftogaz deficit	-7.4	-4.3	-5.5	-6.7	-10.0	-2.1	0.0	0.0
General government gross debt	40.6	36.9	37.5	40.5	70.3	79.5	81.2	71.6

Sources: IMF (2014a), (2014b), (2016a), (2016b), (2019a); World Economic Outlook (WEO) Database, October 2019.

<u>Diversification of energy supplies</u>

In contrast, the goal of diversification of energy supplies, long delayed or ignored, was aimed at reducing Ukraine's direct dependence on energy imports from Russia, in order to deprive Russia of a means of pressing on Ukraine its own foreign policy preferences, including through threats to raise the gas price, or to cut or re-route energy supplies. Ukraine's complete elimination by 2016 of all imports of natural gas from Russia directly, and their import instead at lower prices via Central Europe by way of "reverse" supplies, therefore became another high-profile policy success claimed by the post-Euromaidan authorities. In any case, the combination of recession, the loss of some energy intensive industries to the war in eastern regions and the hikes in household tariffs led to a sharp decline in total gas consumption in Ukraine, from about 50bn cu metres in 2013 to around 32bn cu metres in 2016-17 (Naftogaz, 2021). This is shown below by the shortening of the darkest grey bars from left to right in Figure 6.4.

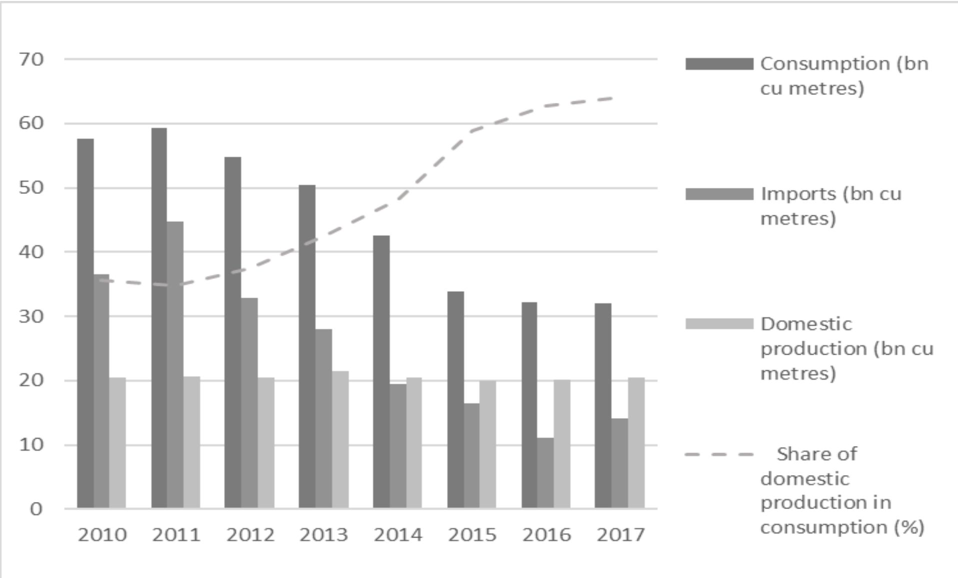


Figure 6.4: Production, import & use volumes of natural gas in Ukraine, 2010-17.
Sources: Naftogaz. (2020). *VYDOBUVANNYA HAZU*. Available: https://bit.ly/3tWO1ag. [Accessed September 20th 2021]. Naftogaz. (2021). *Vykorystannya pryrodnoho hazu*. Available: https://bit.ly/3nOf869 [Accessed September 9th 2021]. Own calculations.

Within these totals, the share of domestic gas production rose from around 40% of all consumption in 2013 to more than 60% by 2016-17 (shown on the chart by the rising dashed grey line). However, this was because of a halving of all gas imports between 2013 and 2017, rather than an expansion of domestic gas production, the volume of which remained broadly stable at just above 20bn cu metres in this period (Naftogaz, 2020), suggesting no quick turnaround in the investment and productivity in the sector.

Reform of energy market regulations

The main aim of the final two post-Euromaidan gas-sector reforms—of the regulatory framework and of Naftogaz—was to develop a more transparent and competitive gas market compatible with Ukraine's membership of the EU's Energy Community (EC)—which it had joined in 2011—and, in particular, with the EU's so-called Third Energy Package (Bayramov and Marusyk, 2019, p. 77). The basic "roadmap" for energy reform was already contained, therefore, in the broader framework of the country's EU association agreement (AA) and deep and comprehensive free-trade agreement (DCFTA), covering between them the political, economic policy and trade dimensions of Ukraine's planned EU integration. Although thwarted temporarily by Yanukovych's failure to sign the AA in November 2013—thereby triggering the mass protests that eventually brought him down—the agreement was signed by Petro Poroshenko in June 2014, following his election to the Ukrainian presidency, but did not come into force until the start of 2016.

On the regulatory dimension of gas-sector reforms, therefore, the most important goal was the development of a legal framework, in line with EU energy laws, to be overseen by an independent regulator. Key measures of the legislative alignment included, for example, allowing third-party access to the national gas transmission system, hitherto monopolised by Naftogaz, and the raising of domestic household gas prices, as described above. By late 2016, the authorities had also "committed to introducing a quarterly adjustment mechanism to ensure prices stay on a par with import prices" (IMF, 2016a, p. 14), in part to try to "depoliticise" the issue.

In September 2016 a law was passed on the establishment of a new energy market regulator with enhanced powers. Thereafter, however, the government is reported to have delayed the appointment of a management team at the new regulator (Konończuk and Matuszak, 2017). Moreover, although household gas prices were supposed to rise by a further 17% in October 2017, "Fearing a political backlash, the authorities suspended the adjustment mechanisms" (IMF, 2019, p. 16). Hirman notes the slow pace of alignment with EU energy laws compared with other kinds of reforms in the AA, so that by the time of a 2018 report on overall progress, although legislative alignment on 24% of the *acquis communautaire* (the body of EU law) had taken place, the figure was only 6% for laws relating to the energy sector, most of them on the gas market (Hirman, 2019, p. 80). Going further, Bayramov and Marusyk underscore the crucial distinction in post-Euromaidan Ukraine between the passing of energy reform legislation and its implementation, as follows: “Ukrainian elites have been formally open to the flow of rules, as evidenced by a number of agreements concluded between the EU and Ukraine. But, in practice, the pre-existing, deep-seated preferences of those elites have perpetuated the opaque gas-trading system, resulting in them being very selective about the rules they are prepared to adopt” (2019, p. 75).

Naftogaz restructuring

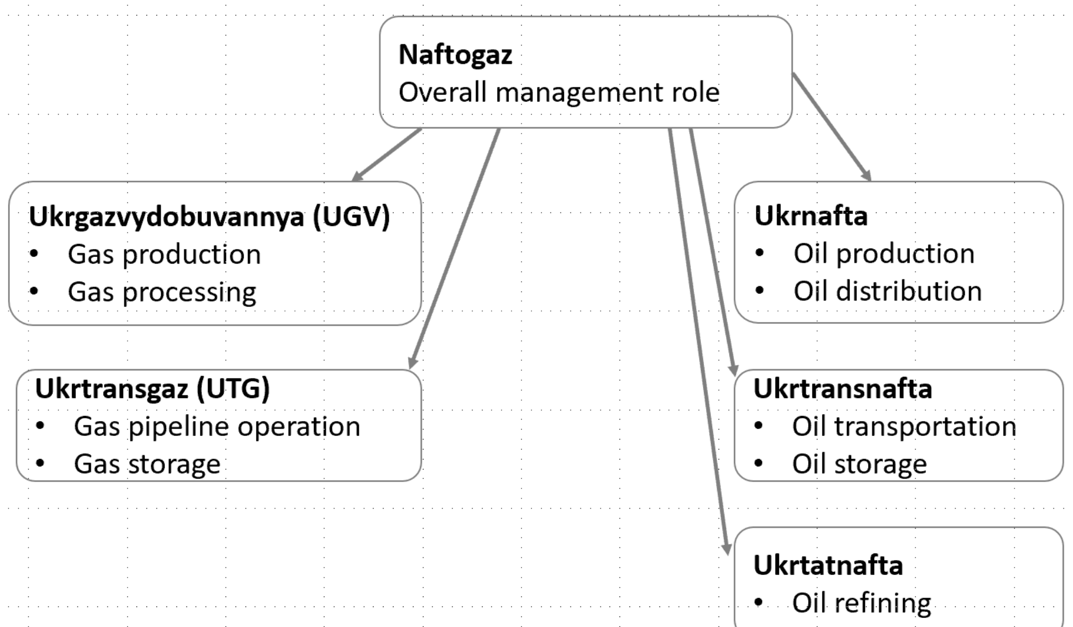
Between them, Naftogaz and its subsidiaries dominate the Ukrainian oil and gas sectors. As an institution central to the political economy of Ukraine since its establishment in the late 1990s under President Kuchma, purportedly as a means of centralising energy rents (Balmaceda, 2013, p. 113), it is no surprise that issues of its governance, and of its restructuring as a business, were high on the list of energy reforms proposed by the post-Euromaidan authorities and their international backers.

In its economic memorandum of April 2014, the interim government suggested that reform of Naftogaz was necessary in the short term to reduce the strain on public finances, and over the longer term to attract investment to the sector by improving the business environment (IMF, 2014a, p. 63). It was not until 2016, however, that any of the plans for reform of Naftogaz began to take shape. This included:

- the appointment in May of a more independent supervisory board, for which the powers of control of Naftogaz subsidiaries were expanded in December (Burakovsky et al, 2018, p. 27);
- the delivery to the EU by July of an official plan to “unbundle" Naftogaz—that is, to separate out the gas transmission and gas storage elements of the business, and transform them into stand-alone enterprises;
- the development of a “corporate governance action plan” for Naftogaz, designed to reduce costs and increase transparency.

At the same time, according to a later report from the IMF, soon after this, "Despite some initial success in advancing energy [and banking sector] reforms…reforms increasingly faced resistance" (IMF, 2019, p. 14). As a result of this, in September 2017, the independent members of the new supervisory board resigned (Antonenko et al, 2018), accusing the government of disrupting "unbundling" preparations (so accounting for the slow progress on that issue), and of interfering in the activities of Ukrgazvydobuvannya (UGV), the state-owned gas producer, and Ukrtransgaz (UTG), the gas pipelines operator.

Figure 6.5: Naftogaz & main subsidiaries: structure & functions



Source: Naftogaz Europe (2014).

Figure 6.5 above depicts in simplified form the relation of Naftogaz to its main subsidiary enterprises, along with the main functions of each. The purpose of the chart is to make it easier for the reader to follow the upcoming analyses, in which these similar-sounding portmanteau names of Ukrainian energy enterprises will often be referred to.

iv) Interim observations

To conclude this section, two observations can be made. The first is that Naftogaz appears as one of the key institutional settings in which the leading business-political networks struggle with one another for resource control, often by trying to place their associates into key management positions. In this sense, it may be seen, alongside the Rada, the courts and the presidential administration, as one of “essential” sub-institutional sites on and around which the Ukrainian oligarchy as a whole is recreated, regulated and evolves. A second observation is that many of the above energy reforms were undertaken during a severe, multi-dimensional crisis in order to meet IMF loan conditions. That such reforms have tended to be externally imposed, rather than internally driven, and so better adapted to Ukraine’s specific political and economic circumstances (Bayramov and Marusyk, 2019, p. 13), is probably one factor that helps to explain their relative lack of purchase.

IV. Two “historical” gas intermediary rent-extraction case studies: Lazarenko’s UESU and Firtash’s RUE

i) Lazarenko's United Energy Systems of Ukraine (UESU), 1995-98

The essence of the rent-extraction scheme established and run by Pavlo Lazarenko in the Ukrainian gas sector in 1995-98, with Yuliya Tymoshenko as his chief adjunct, was the use of his formal political position as a high-level government official to award energy contracts to a business, the earnings of which he and his business-political network were the “ultimate beneficiaries” —a fact that they went to considerable lengths to obscure. His operation can perhaps be seen as a prototype for later large-scale rent-extraction schemes, not just in the energy sector, but across the Ukrainian economy. It must have acted as a demonstration of what was possible when political connections, organisational knowledge and an imaginative leap in scale come together, paving the way for the succession of similar later schemes, several linked to Dmytro Firtash, the main Ukrainian “gas” oligarch, who has proved a more lasting influence in modern Ukrainian politics than Lazarenko.

So how did the Lazarenko scheme work within the wider political set up of the day? What were its mechanisms? Which political and business actors, and political and business institutions, were involved, and what were the operational relations between them?

Key in this regard is the development of regional business-political networks in the early 1990s out of the social, organisational and political material of late Soviet society. In Ukraine, the roots of these originally regional structures, Mikhail Minakov suggests, go back as far as the bans on ideological factions within the Soviet Communist Party under Stalin (Minakov, 2019, pp. 221-222). Developing in-group patterns of hierarchical personal loyalty, in part in competition with rival regional party-administrative structures for the leading political and government posts in Soviet Ukraine, these left the regional elite networks with a degree of cohesion, administrative and management skills, as well as political experience, that proved a competitive advantage—and for network members, a source of security—in the chaotic, uncertain and sometimes dangerous period of the 1990s. In the course of that decade, these advantages saw them win out over rival kinds of elite organisational structure (Minakov, 2019, pp. 229-230). From these formations, leading regional political actors were able to launch careers in national politics as a way of claiming for themselves and their group a share of the resources available only at the national level.

The biographies of both Lazarenko and Tymoshenko, straddling Ukrainian independence in 1991, fit into this picture, which resonates also with the discussion in the literature review on the generative phase of the Ukrainian oligarchy in the early 1990s. That is, both Lazarenko and Tymoshenko seem to have been trained in late Soviet educational, political and economic institutions to prepare them for life as functionaries in the Dnipropetrovsk regional administrative-economic apparatus of Soviet Ukraine, him as an agronomist, her in mining technology, then economics (*Ukrayinskyi doshch*, 2020). With the arrival of Gorbachev’s property reforms in the late 1980s, therefore, they found themselves among the relatively privileged part of Soviet society with the knowledge, organisational connections, training and skills, and perhaps self-confidence, to make the most of the new business opportunities then starting to become available.

Over time, and by way of sometimes violent struggles over resources and position, the late Soviet networks of personal economic and administrative connection developed into the post-communist regional networks, the two most important of which were centred on the industrial regions of Dnipropetrovsk and Donetsk, albeit with less powerful networks based in other regions—or cities, as in the case of the Kyiv network—and with much internal differentiation within each. In the developing network centred on Dnipropetrovsk region, for example, after Kuchma was elected, “his clan split into several competing and hostile groups seeking to control resources through the privatisation process and the control of trade flows (oil, gas)” (Avioutskii, 2010, p. 122).

Amid Kuchma’s attempt to combine informal political knowhow with his enhanced presidential powers to stabilise the relations of post-Soviet political and economic power by “balancing” the interests of the leading business-political networks (Balmaceda, 2013, p. 98), Lazarenko, as another key political representative of the Dnipropetrovsk group, had risen to the position of deputy prime minister with responsibility for restructuring the energy sector (Hirman, 2018, p. 77). This gave him the formal political authority to set the rules in the sector on energy imports and distribution.

In this ministerial role, in the mid-1990s Lazarenko awarded to United Energy Systems of Ukraine (UESU) the exclusive contract to import and distribute natural gas supplies for the Dnipropetrovsk region, so that in 1995-97 UESU became Ukraine’s largest energy importer, generating annual turnover of US$10bn (Hirman, 2018, p. 77), in a period in which Ukraine’s annual national output was valued at around US$45bn (in current prices and exchange rates), according to World Bank data. UESU was founded by Tymoshenko in 1995, but 85%-owned by United Energy International (UEI), another of her business creations. At some point, the title of UESU’s gas contracts were transferred to UEI, while the payments of Ukrainian gas consumers went into UEI’s bank accounts. In 1996 UEI transferred US$140m to a Cyprus-registered business, Somolli Enterprises, also controlled by Tymoshenko. In 1996-97 Somolli Enterprises paid Lazarenko a total of US$162m (Hirman, 2019, p. 77).

Two key international dimensions enabling the Lazarenko scheme should be underscored. The first is the energy supply link with Gazprom and the Russian officials assumed to have authorised and benefited from it. This was necessary for the generation of what Balmaceda terms “external” rents (Balmaceda, 2013, p. 6). The second was use of the legal and financial infrastructure of the international “wealth management” industry, such as registration of companies in tax havens, which offer low rates of taxation to foreign investors. This was necessary both to complete and to obscure the circuit of conversion of political authority into private material gain, as well as to keep the wealth accumulated from the scheme out of the reach of the national government and business rivals. This illustrates how the entanglement of domestic political and business actions and structures with the international financial and legal systems was a necessary dimension of the scheme—underlining a point already made in Chapter Four—and can be interpreted as a form a wealth defence, employing international legal and financial services to protect accumulated wealth both from "vertical" and "lateral" threats.

None of the above steps could have happened with such impunity outside of the development of a conducive political environment. That is, it is not just the specific political institutions that are important facilitators of such rent-extraction operations as the UESU gas intermediary scheme, but also the broader, political economy regime, the way in which the interpenetrating worlds of politics and economics relate and are articulated.

In the end, the ambition of Lazarenko’s scheme, as well as his personal political ambitions, seem to have been key factors behind his undoing. On the second of these, Kuchma brought charges of embezzlement of state funds against Lazarenko only when he suggested he might run against Kuchma in the presidential contest of 1999 (Kudelia and Kasianov, 2021, p. 22). That year, Lazarenko fled Ukraine to the US, where he was arrested by the US authorities and eventually successfully charged with money-laundering (Wayne, 2016). Up to half a billion US dollars were confiscated from Lazarenko’s US accounts following his arrest (Hirman, 2019, pp. 77), testifying to the scale of his personal financial benefit from the scheme, while, according to the US authorities, a decade and a half later, he still had hidden abroad up to US$250m he made from the scheme (Wayne, 2016).

ii) Dmytro Firtash’s RosUkrEnergo (RUE), July 2004 to January 2009

The story of RosUkrEnergo (RUE), the intermediary that dominated the Ukraine-Russia gas trade for a significant chunk of the 2000s, takes place in two parts. The first runs from its founding in July 2004 until the agreement that followed a serious gas dispute with Russia in January 2006. The second runs from then until late January 2009, when a new deal struck between Yuliya Tymoshenko and Vladimir Putin, as the prime ministers of Ukraine and Russia, respectively, cut RUE out of the gas trade once more.

The mechanism of rent extraction of the RUE scheme was simple: with backing from the highest political levels in both Russia and Ukraine, RUE was able to buy gas from Gazprom at low prices and sell it at higher prices both in Ukraine—including to Naftogaz after 2006—and to central eastern and western Europe (Burakovsky et al, 2018, p. 24; Grey et al, 2014).

RUE was established as a joint venture between Ukrainian and Russian partners, 50%-owned by Rosgas Holding and 50% by Centragas Holding, with all three registered in Switzerland. Rosgas held the share of the business belonging to Gazprom, Russia’s state gas behemoth, whereas that of Centragas was held for Group DF, with Dmytro Firtash as its majority owner (giving him 45% ownership of RUE) and Ivan Fursin, a Ukrainian businessman and sometime MP for the Party of Regions (PoR), holding a minority share which gave him a 5% stake in RUE (Grey et al, 2014).

In many respects, the RUE scheme was similar to Lazarenko’s UESU, involving the two countries’ state-owned energy conglomerates and licensed by powerful formal political connections at home and abroad, for whom it generated private incomes at the expense of the Ukrainian and Russian public finances, but with the proceeds stowed away in business structures registered in countries specialising in "wealth protection" services (such as Cyprus and Switzerland), out of reach of the Ukrainian and Russian financial authorities.

At the same time, the RUE scheme, especially in its final form between 2006 and 2009, was both more comprehensive and larger in scale in terms of its financial and political impact. While RUE started life in a deal between Leonid Kuchma and Vladimir Putin in July 2004 to replace the earlier Eural Trans Gas intermediary, which dealt with the transport of Turkmen gas to Ukraine, Balmaceda stresses the qualitative change in its position in the gas trade as a result of the agreement put in place from late January 2006, which contractually embedded RUE's control over the whole Ukraine-Russia gas import business. Alongside the takeover of gas imports, moreover, the establishment of a connected company, UkrHazEnergo (UHE), was an aspect of the 2006 deal that had significant long-term macroeconomic ramifications for Ukraine. This was because, by awarding to UHE the right to market gas to industrial consumers in Ukraine, it took away from Naftogaz the most profitable segment of the domestic gas market. In combination with its statutory obligation to sell gas to households and household heating enterprises at below cost (Balmaceda, 2013, p. 128), this helps to explain the development of a chronic "quasi-fiscal" deficit at Naftogaz, by which financial shortfalls at the company were for many years covered from the state budget (Table 6.1 above show the data for this phenomenon for 2010-15).

RUE's profits are recorded at US$755m in 2005, US$785m in 2006 (RosUkrEnergo, 2007) and US$795m in 2007, the last on turnover from gas sales of US$10bn (Grey et al, 2014). On reported average gas volumes of 50bn cu metres annually in 2005-08, and using the average German border prices for gas collected by Balmaceda for those years (2013, Table 4.3, p. 124), however, it is possible to estimate a total potential turnover of the gas handled by RUE, valued at market prices, which comes to an average of around US$16bn per year.

Although Firtash was involved in important gas-sector rent-extraction schemes earlier (Eural Trans Gas) and later (OstChem), RUE is the one that launched him into the premier league of very wealthy and politically influential Ukrainians whom I am calling oligarchs (individuals influential at the national political level because of the defensive services that concentrated wealth makes available to them). The value of Firtash's domestic business assets peaked in 2012 under Yanukovych, at US$3.4bn (0.5% of Ukrainian national wealth), taking him to 4th place on the Focus rich list, but fell sharply post-Euromaidan, although he remained among the ten wealthiest Ukrainians. Compared to Lazarenko and Tymoshenko, however, Firtash is of a different "social type", also familiar from the generation story of the Ukrainian oligarchy—an entrepreneurial outsider whose chief asset is his political, and reportedly underworld, connections. Trained as a fireman, in the late Soviet era he started a business exporting canned goods to Central Asia (Grey et al, 2014). Since 2014, he has been held in Austria on bail following accusations by the US authorities of bribery in a titanium deal with Indian businesses (Brown, 2019), although this has not prevented him from playing an active role in Ukrainian politics from a distance, by way of his network representatives and alliances. Another contrast with the Lazarenko case is that Firtash seems to have risen to prominence primarily through Russian political-administrative links rather than through association with one of the Ukrainian regional networks.

The RUE scheme was, then, the most comprehensive and largest in scale of the gas intermediary rent-extraction schemes but, perhaps because of this, it did not durably fit with the "multiple pyramid" political context of the "Orange" years. Reliant on continued high-level political backing in Russia and Ukraine after the Orange Revolution, the "deepening" of RUE's role in the Ukraine-Russia gas trade at the time of the gas conflict of January 2006 may not be a coincidence, on Balmaceda's account. At the same time, the weakening of the constitutional powers of the president relative to parliament and the prime minister, as well as ambiguities on the precise distribution of powers between them, encouraged increased competition for rents among networks. In time, this showed itself politically as a campaign by Tymoshenko as prime minister to re-centralise the gas trade between the two countries' state gas enterprises. Public hostility was linked to the view that the RUE intermediary performed no useful economic function (Miklos, 2019, pp. 20-21) that Gazprom and Naftogaz between them could not have carried out themselves. Rather, as a business structure, it was merely interposed between the producer and the buyer as a way of extracting wealth for well-placed special interests. An earlier rationale for the intermediaries had been that they were able, through barter, to supply gas at low prices to Ukraine in conditions of low liquidity (Balmaceda, 2013, p, 110)—that is, when cash was scarce. Once the situation of low liquidity had passed, however, the justifications for such schemes became more spurious still.

iii) Some brief initial observations on the UESU and RUE schemes

In retrospect, if Lazarenko's operation appears as that of the informal innovator, Firtash's RUE intermediary is more that of the copyist who scales up and "perfects" the original. The most direct economic costs of both schemes were felt as losses to public finances—both the Ukrainian and Russian budgets, but probably more serious for Ukraine because of its undermining state capacity (Burakovsky et al, 2018, p. 25). Of the two, however, the RUE scheme appears not just on a larger scale, but also a deeper or more thoroughgoing mode of rent extraction, of both a quantitative and qualitative change in rent extraction, not just damaging the public finances, but contributing to large-scale, chronic macroeconomic imbalance increasing the Ukrainian economy's vulnerability to economic shocks. The most serious long-term impact of these schemes may be at the political-institutional level, however—UESU through prompting the establishment of Naftogaz as an institution within the Ukrainian polity for the centralisation and distribution of energy rents, which has been a focus for network rivalry ever since; and RUE not only by perpetuating macroeconomic imbalance, but also by inserting into Ukrainian politics a wealthy political actor (Firtash), dependent on the Russian elite for his material power and position, who helped to pave the way for Yanukovych's disastrous presidency.

C. Rent-extraction schemes in the Ukrainian energy sector, post-Euromaidan: three case studies

V. Outline of the energy sector analyses and main sources

The second half of the chapter explores three cases of post-Euromaidan rent-extraction schemes in the gas sector, based mainly on an analysis of the reports of Ukrainian investigative journalists, think-tanks and anti-corruption bodies, and so on the documents and evidence unearthed by them. The case studies were chosen on a number of criteria, including the level of detail provided by the source and its local reputation for trustworthiness. The three cases were also picked because between them they illustrate both continuity of extraction practices over time and something of their range.

As with the case studies of the older, large-scale intermediary gas schemes, the aim is not just to show the specific mechanisms by which rent extraction was achieved, but also the alignments of political-economic actors and institutions that made them possible. From these accounts, similarities and contrasts can be drawn between the older and newer schemes, in order to arrive at a “taxonomy” of some characteristic features of Ukraine’s gas-sector rent-extraction schemes. Locating each post-Euromaidan gas scheme in the context of the accounts of energy policy and the evolution of the overarching political economy governance structure (Chapter Three) should help to make sense of these continuities and adaptations.

While the previous chapter examined the means by which holders of concentrated wealth have been able to transform this into a political negotiating position through their material control of votes in the Rada, therefore, the energy case studies illustrate concretely some channels through which economic rents continued to be extracted and defended in the post-Euromaidan era by way of networks of political influence running through and acting upon the sub-institutions of the state—completing thereby the simple picture of the “national” circuit of material and political power set out in the first chapter of this study, and explored in more detail in the last.

One of the post-Euromaidan gas schemes analysed arises from an investigation of the National Anti-corruption Bureau of Ukraine (NABU), a new law-enforcement body set up in the wake of the Euromaidan revolt to tackle corruption in public life. It centres on the construction of an arbitrage opportunity as part of a production-sharing agreement (PSA) of a number of private energy firms with Ukrgazvydobuvannya (UGV), the wholly state-owned gas-production company, and was purportedly organised by Oleksandr Onyshchenko, a Rada deputy who fled the country. The information on the case is taken mainly from the website notices on the investigation issued by the NABU (NABU, 2016a, 2016b, 2017a, 2017b, 2017c, 2017d, 2018a, 2018b, 2019).

A second scheme involved the creation by a gas-supply company in Kirovohrad region of gas accounts for non-existent households in order to benefit from the divergence in gas tariffs charged for domestic households and industrial consumers, following a period of convergence from 2014. The main details in this case are taken from a report by a Naftogaz research team (Naftogaz, 2017).

The case examined first and in greatest depth, however, is the award of a valuable gas-extraction permit for an already developed gas-field to a firm with no track-record in the energy business, which, the journalists at the aptly named Schemes (*Skhemy*) TV show, was linked to figures close to President Poroshenko (Chornovalov, 2018). There are three parts to this analysis, looking at i) the mechanics of the scheme and the evidence of its connection to Poroshenko’s circle; ii) the scheme viewed as an episode in a wider power struggle between oligarchic networks; and iii) the multi-pronged strategy for the scheme’s defence via state institutions. In combination, these produce a picture of the scheme from multiple angles, of how it was generated, how it worked and how it was protected.

“Schemes” is a Ukrainian weekly investigative TV programme, run jointly by First (*Pershyy*), the main TV channel of Ukraine’s National Broadcasting Company, and Radio Svoboda, the Ukrainian service of the US-funded Radio Free Europe/ Radio Liberty (RFE/RL). The programme, which came on air after the Euromaidan revolution, specialises in uncovering official corruption, using a mix of public and company records, communiqués and websites, as well as legal documents and interviews with institutional actors and politicians, sometimes by “door stepping” them (that is, confronting them with questions in a public space without prior arrangement). The content of each episode is then written up for the websites of the show and of Radio Svoboda, reproducing facsimiles of the evidence and infographics used. The main Schemes articles detailing the gas-permit case are from 2018-19, but the events they cover occur in 2014-17—that is, within the timeframe of this study.

VI. The Poltava gas-permit scheme: rent-extraction mechanism, political economy context and defence on the terrain of state institutions

i) Arkona Gas-Energy "wins" the gas permit

Operation of the scheme and its value

In May 2017 the State Service of Geology and Subsoil of Ukraine (Gosgeonadr) awarded to Arkona Gas-Energy, a small, recently created company, a 20-year permit to extract gas and gas condensate from the Svistunkivsko-Chervonolutsk deposit in the Poltava region in central Ukraine (Chornovalov, 2018). At the time of the award, Arkona was owned by two relatively low-level "business-administrative" officials from Donetsk region, Ihor Mychko and Oleksandr Neshchotny. With an authorised capital of just UAH4,000 (US$150 at the exchange rate then current) and Mychko initially its sole owner, Arkona had first expressed an interest in the licence in March 2016. Later in that year, the share capital of the company was raised to UAH5.6m (US$214,400), in return for which Neshchotny obtained a 50% stake.

According to the Schemes investigation, the mechanism of rent extraction in this arrangement was through securing formal, legal access to a valuable resource cheaply using administrative connections within the state apparatus. The Geology Service was the crucial administrative link, as it accepted a low estimate for the Poltava field's reserves and issued the permit without a competitive tender. These factors suggest that the price Arkona paid for the licence, of UAH3.8m (US$143,400 at the May 2017 average exchange rate), was below the sales value it could have achieved. This view is supported by alternative estimates for the energy reserves at the deposit. According to Arkona, exploitable gas reserves at the field totalled 320m cu metres, with gas condensate of 46,000 tonnes. Ukrnafta, the majority state-owned oil production company that had been exploring and developing the Svistunkivsko-Chervonolutsk deposit since the 1990s, estimated gas reserves at around four times higher, or 1.6bn cu metres, with gas condensate estimated more than twice as high, at 130,000 tonnes. In light of this, Ukrnafta claimed that it had been prepared to offer UAH45m (US$1.7m) for the right to exploit the deposit, more than ten times above what was paid by Arkona, but suggested that the licence might have fetched up to UAH110m (US$4.5m) in a competitive tender.

Some years later, having completed a pre-trial investigation of the role in the scheme of members of the management of the Geology Service, the NABU estimates a permit value almost double this figure, of UAH200.6m (US$9.1m; NABU, 2021), implying larger losses still to state coffers. Based on Ukrnafta's reserve estimates, and using the market prices then current, Schemes estimates the total resource value of the deposit at UAH12bn, or US$450m.

Ukrnafta says that it applied for the Poltava extraction licence in 2014, following the expiration of its exploration and development permit, but was refused. When it applied again in 2016, and was again turned down, two reasons were given. The first was that the documents the company had submitted were inconsistent. The second was that Ukrnafta lacked the funds to pay for the licence, since it had accumulated a backlog of unpaid taxes (Chornovalov, 2018).

It is possible to calculate the value of the resource independently. The results of this are shown in Table 6.2 below. On estimated international gas prices of between US$192 and US$203 per 1,000 cu metres in 2017, the year that the permit was awarded, the market value of the gas from the Poltava deposit by itself would have been US$61m-65m on Arkona's reserves estimate, but US$307m-325m on Ukrnafta's higher one, a difference of around US$250m. To arrive at these estimates, which exclude the value of gas condensate, I used the data on annual "German border" gas import prices from bp's *Statistical Review of World Energy* 2020 (bp, 2020, p. 39). Since these are listed in US dollars per million Btus (British thermal units), and I wanted to extend the series of Ukraine's gas import prices collected by Balmaceda for 1991-2010, which are in US dollars per thousand cubic metres (Balmaceda, 2013, p. 104), I used one conversion value to arrive at the "low" gas price estimate shown in the table and another to produce the "high" one. The first, lower conversion value is suggested by bp, a British oil and gas company, in the methodology section of its report (bp, 2020, p. 64). The second, higher one is the average conversion rate implied by comparison of bp's Btu prices and Balmaceda's prices per thousand cubic metres for 1991-2010.

It should be noted that the above estimates do not indicate the scale of the profits available to the permit holders as, to show that, it would be necessary to factor in expected production costs. What these estimates do show, however, is the scale of the losses to the public finances implied by the divergent estimates of gas volumes, both in terms of permit fees and future income foregone, since the Ukrainian state holds a 50% plus one share in Ukrnafta, which is a subsidiary of the Naftogaz state energy holding (see Figure 6.5 above).

Table 6.2: Value of the Svistunkivsko-Chervonolutsk gas deposit, by contrasting reserves estimates

		German border price (US$/ '000 cu metres)		Value of gas deposit at 2017 German border price (US$ m)	
	Estimated gas volume ('000 cu metres)	Low estimate	High estimate	Low estimate	High estimate
Arkona	320,000	191.8	202.9	61.4	64.9
Ukrnafta	1,600,000	191.8	202.9	306.9	324.6

Sources: Chornovalov. (2018). Schemes/ Radio Svoboda. Available: https://bit.ly/3izyOYf. [Accessed July 7th 2021.] BP. (2020). *bp Statistical Review of World Energy 2020* , p. 39. Available: https://on.bp.com/3ol8l3Z. [Accessed July 1st 2021.] Own calculations.

How did the Arkona scheme link back to Poroshenko's circle?

In mid-2017 two new partners came on board at Arkona. The first, with a 5% stake, was Oleksiy Hrebenchenko, who has previously worked at Ukroptkulttovary (Chornovalov, 2018), a food wholesaler owned by Poroshenko (*Ekonomichna Pravda*, 2018). The second new partner was Ashburi Universal, registered in Belize to a Panamanian citizen. It took a 49.5% stake in Arkona, so reducing the stakes of the two original shareholders to 22.5% each. It is mainly through Ashburi, an offshore legal structure that invested in Arkona only after the gas permit had been obtained at an apparently knock-down price, that Schemes is able to trace the control of the licence to a sub-network of legal officials close to President Poroshenko. In particular, the Schemes investigation links the acquisition of Ashburi's stake in Arkona with the transfer of UAH1.39m (US$52,000) each to Mychko and Neshchotny in the second quarter of 2017 by a Kyiv notary, Natalya Malovatska.[22] She is the wife of Oleksiy Malovatskyi, a member of Ukraine's High Council of Justice, the state body responsible for the appointment and dismissal of judges. Malovatskyi, it may be remembered, was mentioned in the previous chapter, when Rada approval for his appointment to the High Council appeared as the subject of a vote-buying negotiation, via

[22] In the Ukrainian legal system, the main role of a notary is to authenticate legal documents.

mobile text, between Oleksandr Onyshchenko and Serhiy Berezenko, one of Poroshenko's parliamentary fixers (Sukhov, 2018).

During Poroshenko's run for the presidency in 2014, Malovatskyi had been on his legal team, but he is described as a protégé of Berezenko (Chornovalov, 2018), himself a central figure in Poroshenko's Vinnytsya business-political network and the leader of one of the deputy groups in the Rada within the Petro Poroshenko Bloc/ PPB (Andrusiv et al, 2018, p. 66). Moreover, many of the other players in the Arkona gas-permit scheme are linked to Malovatskyi through the legal profession. Thus, both Hrebenchenko and Oleksiy Bondar, registered as the legal representative of Ashburi for a company general meeting, were connected to Malovatskyi through a law firm, Ekovis, Bondar and Bondar, where all three had previously worked. Meanwhile, Liliya Kobzar, the lawyer with power of attorney for Arkona, managed another legal firm, Yus Novitas, which was owned by Malovatskyi.[23] In a later twist, perhaps in response to the negative publicity stirred up by the original story, by 2019, possession of Ashburi's 49.5% share in Arkona had been transferred to one Oleh Olkhovyi, the director of an up-market fitness centre in Kyiv owned by Poroshenko and another of his long-time business-political associates, Ihor Kononenko (Chornovalov et al, 2019; *Ekonomichna Pravda*, 2018).

<u>ii) The permit scheme in the context of a power struggle between political-business networks over the domestic oil sector</u>

The Schemes journalists portray the Arkona case somewhat neutrally, almost apolitically. That is, in their treatment of the story, Ukrnafta is presented more or less unproblematically as a public enterprise that has been swindled out of an asset (the gas deposit), in which it had already invested, by the sharp-practices of well-connected political insiders, ultimately at the expense of the national budget.

Standing back a little, however, the Arkona scheme appears as just one episode in a broader power struggle between rival business-political networks, each conducting their moves in the contest through the influence they are able

[23] The significance of this network connection with legal specialists will become apparent in the outline of the means of defence of the Arkona permit scheme below.

to exert on and within key administrative, judicial and economic institutions of the state. Specifically, this was the struggle between the networks around Poroshenko as the new president (both his own and those aligning with him because of the powers of attraction of his formal political position), and the Privat network of Ihor Kolomoyskyi, arguably the most successful and (at the time) celebrated of the "oligarch governors" following the fall of Yanukovych. The conflict between these networks is one of the threads that runs through key developments of the Poroshenko presidency, and may be detected also, perhaps, in the snap nationalisation of PrivatBank at the end of 2016 (Buckley, 2016), as well as the unfolding of the events around the Donbas blockade the following year (Olearchyk, 2017). In the post-Euromaidan era, however, it originated in a high-profile battle over control of the domestic oil sector.

<u>Kolomoyskyi and the Privat network; his appointment as governor and shifting relations with Poroshenko</u>

With the value of his recorded domestic business assets averaging around US$3bn (equal to 0.66% of national wealth) in 2006-17, according to the Focus rich lists, Kolomoyskyi, like Poroshenko, appears among the "core rich"—that is, high on the list of the richest and most enduring members of Ukraine's economic elite. Typically, Kolomoyskyi comes in the top two or three individuals on Ukrainian rich lists, usually just ahead of Hennadiy Boholyubov, his less conspicuous business partner at Privat Group. It is clear, however, from legal cases in Britain and the US in which Kolomoyskyi has been involved—as well as from his own accounts in interviews, if these are taken at face value (Berdinskikh, 2019a, 2019b)—that he also holds a significant amount of wealth abroad, on top of his business assets in Ukraine, some of which may also have been deliberately obscured using complex legal structures (Focus Ratings, 2008). Both Poroshenko and Kolomoyskyi were among the high-profile wielders of either formal factional, or cross-factional, political influence in the Rada formed after the October 2014 parliamentary election, as shown in the previous chapter. On the definition used in this study, therefore, both can be described as leading oligarchs[24], with each consolidating their rise in the ranks of

[24] That is, persistently successful national political actors at the head of extensive business-political networks, who are backed by substantial individual material power, relative to Ukrainian society.

influential network leaders as a result of the Euromaidan victory and its aftermath, albeit by different routes. Moreover, their educational backgrounds are somewhat similar, suggesting that before the demise of the Soviet Union, they, as with Lazarenko and Tymoshenko, were on a path to becoming state functionaries, Kolomoyskyi in metallurgy, Poroshenko in trade (Havrylyshyn, 2017, pp. 204-205), which is in line with the generalised picture of socio-political roots of the oligarchy set out in Chapter Three. Kolomoyskyi's Privat network, with holdings in banking, metallurgy and the media, was one of those that originated in Dnipropetrovsk region dominated in the 1990s by Kuchma and Lazarenko (Avioutskii, 2010, p. 122, footnote 3).

During the Orange Revolution of 2004/05, Poroshenko and Kolomoyskyi had found themselves backing the same side politically, and did so again in the early post-Euromaidan period, when the interim government under Yatsenyuk is reported to have struck up a "tactical alliance" with Kolomoyskyi (Konończuk, 2017, p. 23), so that conflict with Privat manifested itself at the governmental level in an uneasy relationship between Poroshenko and Yatsenyuk, rooted in the divergent interests of their network alliances. The conditions for the development of their rivalry, post-Euromaidan, are not to be found only in the elevation of Poroshenko to the presidency and his attempts to consolidate his political position, however, but also in the elevation of Kolomoyskyi to the position of regional governor.

The appointment of a number of leading oligarchs with roots in eastern Ukraine as regional governors by the interim government in March 2014 took place amid the onset of military conflict with Russia. In light of the weakness of the Ukrainian army at the start of the conflict, the authorities looked to these oligarchs to shore up the country's defences. Not only was this a first, very early step in the political reintegration of the "old" oligarchs following the flight of Yanukovych, but it also underscored the weakness of the central state relative to the coercive, organisational and material power of oligarchs' business groups. The testimony of Oleksandr Turchynov during the trial *in absentia* of Yanukovych in 2018 suggests that the appointment of these oligarchs was an emergency measure. In particular, Turchynov, who was acting Ukrainian president and head of the National Security and Defence Council immediately after the fall of Yanukovych, said that, at the onset of the hostilities, the Ukrainian state had just 5,000 battle-ready soldiers at its command. Fearing a full-blown Russian invasion from the north and east, none of these were available, therefore, to counter Russia's military takeover of the Crimean parliament at the end of February 2014, its first move towards annexation of the peninsula (Unian, 2018).

As a result of this emergency measure, Kolomoyskyi was appointed governor of his home region of Dnipropetrovsk in south-east Ukraine. Over the next year, he ran a large-scale and broadly successful campaign to counter the spread of the Russia's neo-imperial "Novorossiya" project, including by offering bounties for the capture of separatists and their weapons, and by funding new military formations (Chazan and Weaver, 2014). Following the collapse of Yanukovych's "power vertical" in early 2014, and amid the post-Euromaidan official rhetoric of "de-oligarchisation", the political position of the leading oligarch networks under Yanukovych (primarily, those of Akhmetov, Firtash and of Yanukovych himself) had been greatly undermined. Kolomoyskyi's resolute actions in the south-east, in contrast, helped to improve his public image and his relative standing within this small group of "old" oligarchs, just as their "stars" were in decline. Moreover, his official post served to insert him and his organisation at an early stage and at a high level into the post-Euromaidan "revolutionary" political order.

Control of Ukrnafta allowed Privat to dominate, exploit and run down the Ukrainian oil sector

Although the clash of the Poroshenko and Kolomoyskyi networks was triggered by an attempt by the authorities to wrest control from the Privat Group of key public-sector oil enterprises, Privat's domination of the domestic oil business can be traced back to the late Kuchma era, when management control of Ukrnafta, which accounts for the bulk of Ukraine's domestic oil production, was ceded to Privat (several of the details in this next section are taken from the account of Konończuk, 2017). Presumably, this was as part of the system for balancing the interests of the strongest business-political groups as a principle of institutional stability. By negotiating agreements with each subsequent government, however, Kolomoyskyi was able to maintain this arrangement over the following decade (Konończuk, 2017, p. 23).

One factor that is said to have aided Privat's maintenance of management control of Ukrnafta, despite its minority stake in the firm of just 42% of the enterprise (Konończuk, 2016, p. 18), is a joint-stock law that required the backing of 60% of shareholders to convene a general assembly—in effect, preventing any change in the leadership at the company without Privat's consent (Konończuk, 2017, p. 23). Another factor, at least as important, was an informal alignment with state-institutional insiders. On this, Schemes offers some detail in the case of Ihor Didenko, an official with long experience of high office in the parts of the state apparatus charged with overseeing public energy assets and policy. He reports having an extended, co-operative relationship with Kolomoyskyi (Chornovalov, 2015). As an example of the use of his positional influence in Privat's favour, between rounds of the 2010 presidential election, Didenko, then deputy head of Naftogaz, is reported to have helped to prepare an agreement formalising, and so re-affirming, the Kuchma-era understanding of Privat's management role at Ukrnafta (Chornovalov, 2015).

Starting with Ukrnafta, Privat was eventually able to extend its reach to a "complete cycle" of the oil business, gathering together operational control of key firms in oil production, processing, transport and retail sales, allowing the network to dominate the domestic oil sector and so the rents generated from it. Of Didenko's part in this, the Schemes team writes, "it was due to his direct…participation that certain financial and industrial groups gained control over a number of strategic state-owned enterprises" (Chornovalov, 2015). To back this up, they report that, in his role at Naftogaz, Didenko supported the appointment of Oleksandr Lazorko, who had previously worked for Kolomoyskyi, as head of Ukrtransnafta, the state oil pipeline operator and another Naftogaz subsidiary; and facilitated Privat's acquisition of a majority (56%) stake in Ukrtatnafta, which operates a large oil refinery at Kremenchug in Poltava region (Figure 6.5 depicts the functional role of these enterprises within Naftogaz).

Konończuk notes two consequences of Privat's long-standing control of Ukrnafta. The first is that "structures controlled by Kolomoyskyi have been siphoning off money from the company for more than ten years" (2017, p. 23). Second, this mode of management, with its emphasis on fund extraction rather than investment in business modernisation, has contributed, he thinks, to a marked decline in oil production, from 4m tonnes to 2.25m tonnes between 2009 and 2016, a drop of 45% (2017, p. 22). This ties in with the account presented earlier in this chapter on the long-term dysfunction and deterioration in the Ukrainian energy sector in the lead up to the 2014 reforms. Lastly, illustrating the transactional nature of Ukraine's political economy governance regime, "the informal price that Privat has paid for maintaining control of Ukrnafta is the need to pay bribes to members of the government and support them in Kolomoyskyi's media" (2017, p. 23).

Naftogaz "restructuring" sets off a long-running conflict between oligarch networks; Privat network's defence of its "property claims"

Bringing the political side of the story more up to date, in early 2015 the new leadership at Naftogaz tried to replace the heads of Ukrnafta and Ukrtransnafta, as two of its subsidiaries, with its own candidates, thereby threatening directly Privat's control, not just of these firms, but also its "full cycle" dominance of the oil sector, even as the importance of oil within the Ukrainian energy sector had been enhanced by the pressing need to diversify energy imports away from Russia.

Perhaps emboldened by his "ascendancy" in the early period following the Euromaidan, Kolomoyskyi seemed to overplay his hand, bringing his private militia to the headquarters of Ukrnafta in the Ukrainian capital, Kyiv, apparently to try to enforce the position of his preferred candidate for CEO. By "crossing the Rubicon", however, Kolomoyskyi issued a direct challenge not only to the state's monopoly on the legitimate use of force, but also to the leading position of Poroshenko's developing network pyramid, so that Poroshenko removed him as Dnipropetrovsk governor (Olearchyk, 2015). Although Kolomoyskyi's actions were considered outrageous, even by the fairly ruthless standards of operation of the Ukrainian elite, they were not too dissimilar, it should be noted, either from the methods that he had been praised for using in the Donbas conflict, nor from those with which he was already associated.

The sacking of Kolomoyskyi as governor marks not just the completion of the first phase in the contest of network strength, in which the groups around Poroshenko came out on top, but also a way-point of consolidation in Poroshenko's attempt to construct a pre-eminent "network pyramid" around his presidency, in spite of the weaker formal constitutional powers at his disposal compared with both the later Kuchma period and with Yanukovych after October 2010.

Despite this setback, Privat was somehow able to retain effective control of both Ukrtransnafta and Ukrnafta. How did it do so? Alongside the failed attempt to use physical force, the organisation seems also to have pursued legal and administrative-political means of defence. It is also possible, given the financial power and organisational reach of the Privat Group, that the situation was defused by way of a behind-the scenes deal within the Ukrainian elite. The legal defensive factor, aiding continued management control of Ukrnafta at least, was the joint-stock law, mentioned above, requiring the backing of 60% of Ukrnafta shareholders to convene a general assembly. The government's attempt to dismantle this line of defence seems to have been protracted. Thus, in April 2015, although the authorities pressed ahead with amendments to reduce to 50% the proportion of shareholders required to call a general meeting at joint-stock companies, so allowing it to change Ukrnafta's leadership with its 50% plus one share, People's Front (PF) Rada deputies, aligned with Kolomoyskyi through Yatsenyuk, the party's leader, managed to delay its passage until later in the year (Konończuk, 2016, p. 18).

To retain control of Ukrtransnafta also, Privat's administrative-political tactics were twofold. First, Lazorko, faced with the prospect of replacement by Naftogaz's candidate, seems to have taken sick leave to prevent this taking place, at the same time appointing his own choice of successor, Natalia Parakonyak, who had also worked previously for Privat. Second, Didenko, now deputy minister of energy and coal in the second Yatsenyuk government, was instrumental in ensuring that Parakonyak was hired for the role as head of

Ukrtransnafta, so ensuring Privat's continuing *de facto* management control (Chornovalov, 2015).

At Ukrnafta, meanwhile, in the wake of the clash with Poroshenko, the Privat group not only retained management control but, perhaps fearing the potential loss of a lucrative income stream, intensified the pace of extraction of funds from the business, while running up a backlog of unpaid taxes. "As a result, in 2016, Ukrnafta sustained a loss of US$250m and the debt owed to the state reached US$470m (mainly due to outstanding taxes)" (Konończuk, 2017, p. 24).

Seen in this light, the Arkona gas-permit story permit seems to show one network (Poroshenko's) side-stepping the institutional control of another (Kolomoyskyi's) to win control of valuable resource, with both offensive and defensive manoeuvres conducted on the terrain of state institutions by means of placement of, or connection to, network associates. Moreover, this account supports one of the rationales offered by the Geology Service for its rejection of the Ukrnafta's application for the gas-extraction permit at the Poltava gas deposit in 2016: that, under Privat's *de facto* management control, Ukrnafta had built up significant tax debt. The story offers a detailed illustration of the contention that the Ukrainian hydrocarbons market is a "classic example of political corruption where government authorities representing political forces competed for the right to appoint Naftogaz management" (Burakovsky et al, 2018, p. 24). Finally, it should be noted that Naftogaz was at the epicentre of this network struggle because it was set up in the late 1990s as a centralised institution for the collection and distribution of energy rents among the Ukrainian elite (Balmaceda, 2013, p. 113).

<u>iii) Lutsenko's rear-guard action: lines of defence of the gas-permit transaction</u>

A third instalment of the Arkona permit story offers another glimpse into how elite rent-extraction schemes can be defended institutionally, with actors' formal actions belied by their inferred informal purpose. The quite elaborate defence strategy of the award of the Poltava gas permit itself has three components: a "friendly" or intentionally ineffective prosecution; the commissioning of an expert report, allegedly to minimise the estimated scale of financial losses to the state;

and the use of judicial oversight procedures to pressurise the appeals judge into producing the desired ruling.

The first element of this part of the story is a legal case launched by the Office of the Prosecutor General of Ukraine over the issue of the Poltava gas-permit, following the broadcast of the Schemes' original story. Initially, this seems like the prosecutor's office just doing its job, in line with its formal state functions. Reflecting post-independence adaptation of the judicial traditions of both the Tsarist and Soviet state systems, in modern Ukraine these functions are to oversee pre-trial investigations and to prosecute court cases on behalf of the state. A follow-up Schemes investigation from early 2019 strongly suggests, however, that the legal case was launched as part of a larger co-ordinated plan to protect the permit transaction, both from legal contestation by a rival political network and from examination by the NABU (Chornovalov et al, 2019).

An important event in this account is the appointment in May 2016, in the wake of the formation of the Hroysman administration, of Yuri Lutsenko as prosecutor general, after the position of his predecessor, Viktor Shokin, had become politically untenable, chiefly owing to criticism of him by Ukraine's foreign partners, including from the then US vice-president, Joe Biden (Subramanian, 2019). The appointment of Lutsenko was widely criticised because of his lack of formal legal qualifications. Lutsenko, who trained as an engineer, came to prominence in the early 2000s as a campaigner against the increasingly authoritarian rule of Leonid Kuchma. He served as minister of the interior in the two governments of Yuliya Tymoshenko following the Orange Revolution. Like her, he was jailed on trumped-up charges during the Yanukovych presidency (Minakov and Rojansky, 2021, p. 329). More pertinent to the current story is his association with Poroshenko, within whose remit as president the appointment of the prosecutor general fell.

Following the initial Schemes investigation aired in 2018, outlined above, the prosecutor's office took to court a case against the award of the Poltava gas permit to Arkona, although the Kyiv Administrative Court ruled the award legal. The follow-up Schemes investigation begins therefore with the prosecutor's office taking its case to appeal (Chornovalov et al, 2019). However, as the

Schemes journalists point out, the case that the prosecutor's office took to court and lost was made on purely procedural grounds—that is, in awarding the licence without conducting a competitive tender, official procedures had not been followed. In contrast, the issue of accepting a low estimate of reserves at the deposit, so permitting a low payment for the licence and implying significant economic losses to the state, was not raised, leaving an important dimension of the case untried. This part of the case was followed up, however, by "rival" public legal bodies—the NABU and the Specialised Anti-Corruption Prosecutor's Office (SAPO)—which, nevertheless, only finished their pre-trial investigation into the low price paid for the gas permit some years later (NABU, 2021).

The procuracy did appoint an expert, Oleksandr Ruvin of the Kyiv Forensic Research Institute, to assess the scale of these losses to the public purse. Schemes suggests, however, that this was a ploy, with the end goal of whitewashing the untried dimension of the case. In particular, they suggest, "a draft expert opinion is being prepared which confirms that the special permit was sold at an adequate price" (Chornovalov et al, 2019), reproducing a photograph of Ruvin at a Kyiv restaurant with Pavlo Vovk, the head of the Kyiv Administrative Court, and Oleksandr Hranovsky, and influential MP in the Petro Poroshenko Bloc (PPB). Although this is suggestive of collusion, which may even be very likely based on a broad understanding of the ubiquity of the informal dimension of elite Ukrainian politics, this is the weakest part of the journalists' investigation, since it relies more on guilt by association than on detailed, convincing documentation, as in the original Arkona story.

More pertinent from the perspective of my research is a third line of defence of the permit transaction, since it involves the High Council of Justice, to which the appointment of Malovatskyi, the key legal link with Poroshenko in the Arkona gas-permit award, appears to have been secured by way of a cash payment for votes in the Rada (Chapter Five). Specifically, Schemes reports, at the time of the appeals case, the High Council happened to select from its files for review a complaint against Halina Zemlyana, the judge at Kyiv's 6th Administrative Appeals Court selected to hear the appeal. The implication is that the actions of the High Council, the state body in charge of judicial appointments, were aimed at pressurising the judge into producing a ruling on the permit case favourable to the Poroshenko network, by raising the threat of the judge's dismissal from her job.

Once the elements of the "defence" phase of the story are assembled—the lost but only half-hearted prosecution, the possibly diversionary assessment of the scale of public financial losses, and the attempt to coerce the appeals judge—the Schemes journalists attempt to show, the effort of the prosecutor's office appears to have been more helpful to the defendants than expected. That is, it seems designed to appear as a serious prosecutorial intervention, while essentially preventing a real investigation of the case from taking place, as part of a broader strategy to defend the permit award by well-placed associates of the Poroshenko network on its behalf—defending not only against the contestation of the Kolomoyskyi and his Privat network, but also against the takeover of the case by a rival investigative authority, the NABU, from which the prosecutor's office are reported to have withheld documents (Chornovalov et al, 2019). Supporting this overall picture of an "orchestrated" network defence from within and from outside of a range of sub-institutions of the state, another source suggests that the Arkona permit legal case was allocated to a department of the Prosecutor's Office controlled informally by Ihor Kononenko, a stalwart of Poroshenko's Vinnytsya business network and of his presidency (*Ekonomichna Pravda*, 2018). In sum, the prosecution appears as part of a multi-pronged network campaign both to thwart a rival network and the effective operation of the rule of law, while seeming to do the opposite.

<u>iv) Recap of the Poltava gas-permit scheme overall, and what it suggests about the operation and reproduction of the Ukrainian oligarchy as a political economy institution</u>

On its own, the Arkona scheme shows associates of Ukraine's head of state using administrative connections to gain access to a valuable energy asset at a low price, at the expense of the public finances. Understanding something of the clash of personalities and organisations over the control of public enterprises in the oil sector (Ukrnafta and Ukrtransnafta) helps to make sense of the gas-permit scheme by adding its informal political economy context. Specifically, it seems to show one leading business-political network attempting to side-step the institutional reach of a public enterprise (Ukrnafta) controlled by a rival network, using its connections to another state body (the Geology Service) in the wider context of a long-running network feud over political position and access to resource rents. Both Privat's attempts to maintain *de facto* management control of a majority state-owned energy asset, as well as the "smoke and mirrors" actions of the prosecutor's office and other judicial bodies to do the same for Poroshenko's "pyramid", illustrate the multiple means by which the most powerful Ukrainian networks are able to mount a defence of their rent-extraction schemes.

The Arkona scheme offers insights into the mode of operation of the Ukrainian oligarchy as an informal institution of political-economic rule across several organically connected dimensions. That is, the three-part case study shows not only the mechanics of an elite rent-extraction scheme, and not only its context as part of a long-running power struggle between oligarchic networks, but also how such schemes are contested and protected either by means of network associates placed into high official positions within key state bodies or by exerting external pressure on non-network officials. Connecting this with the different dimensions of the Ukrainian oligarchy explored in this study—its material power, practices of political influence and economic extraction—it also allows us see how these dimensions can be joined or articulated into a single line of action. It allows us, for example, to connect the application of material resource power for political influence in one institution (vote-buying in the Rada to place an associate on the High Judicial Council) to the orchestration and protection of the process of conversion of political influence back into wealth elsewhere, making clear the purpose of a practice in one area through its furthering of network goals elsewhere.

Lastly, two broader observational conclusions may be drawn linked to the appointment of oligarchs in a defensive capacity following Russia's military takeover of Crimea from late February 2014. The first is that weakness of the Ukrainian state and the relative strength of the oligarchic networks could be understood as two sides of the same coin—the state weakened financially by networks' rent-extraction schemes, and organisationally by way of the placement of network personnel into key positions throughout the state apparatus, in combination undermining state capacity and coherence. The second is that, because it led to the "rehabilitation" of key oligarchs, and so the reintegration of their informal networks into "post-revolutionary" formal politics, Russia's military interventions helped to save the Ukrainian oligarchy as an institution of informal rule, just at the point of its maximum vulnerability to popular mobilisational power at home.

VII. The Onyshchenko-Nasirov gas scheme: artificial construction of an arbitrage situation, plus tax fraud

In mid-2016 the head of a small private gas-production company, Nadra Geocentre, was arrested, following an investigation by the NABU into a wider scheme of suspected embezzlement of public funds (NABU, 2016a). Linked to production-sharing agreements (PSAs) in Ukraine's gas sector, whereby participants divide the income from jointly undertaken gas-extraction projects, and involving up to 30 individuals (*Ekonomichna Pravda*, 2019), this second post-Euromaidan rent-extraction scheme became known as the "Onyshchenko case" after its main organiser, described by the NABU as the "creator and head of a criminal organisation" (NABU, 2018b).

Oleksandr Onyshchenko has already appeared in this dissertation, in the introduction to the previous chapter, where he is depicted organising vote-buying in the Rada by way of mobile phone texts with Poroshenko's parliamentary fixers. With business interests in the energy sector, Onyshchenko was a people's deputy in the seventh and eighth Rada convocations, first for Yanukovych's Party of Regions (PoR) and then for one of its offshoots, People's Will. Ahead of the lifting of his parliamentary immunity and planned arrest in July 2016, he fled abroad (NABU, 2016b), apparently forewarned.

Following the victory of the Euromaidan, the NABU was set up as a new, additional law-enforcement agency to tackle corruption in public life. The case against Onyshchenko and his associates, initiated in late 2015 (NABU, 2017a), was one of the agency's first high-profile investigations to come to fruition that involved politically well-connected figures holding positions of authority in the state.

The Onyshchenko scheme was in fact made up of two separate, interlocking extraction mechanisms, whose operation overlapped between January 2013 and January 2016 (NABU, 2018a, 2018b; *Ekonomichna Pravda*, 2016b), so straddling the Yanukovych and Poroshenko presidencies, and illustrating continuity of rent-seeking practices between them. One mechanism, an artificially constructed arbitrage scheme, was run with the knowledge of the top management of Ukrgazvydobuvannya (UGV), the wholly state-owned gas-production firm (see Figure 6.5). The second, a tax and rent evasion scheme, was conducted in collusion with leading officials from the State Fiscal Service (SFS).

<u>i) Scheme A. Construction of an arbitrage opportunity in collusion with UGV's management, 2014-15</u>

The first extractive mechanism focused on the embezzlement of the earnings from gas produced as part of a PSA between UGV and its private production partners.

In the post-communist era, the volume of Ukraine's domestic gas production has been relatively stable at 18bn-20bn cu metres annually (Balmaceda and Prokip, 2020, p. 141; see also Chart 6.4 above), with UGV, a subsidiary of Naftogaz, accounting for around 80% of this output (Balmaceda and Prokip, 2021, p. 144). Despite possessing the second-largest natural gas reserves in Europe (Balmaceda and Prokip, 2021, p. 141), however, Ukraine has continued to import around one-third of its gas requirement, even following the marked reduction in gas consumption and reorientation of supply away from Russia from 2014 (see Figure 6.4 above). In large part, the inability to expand gas production reflects the long-term dysfunction of the energy market, described earlier in this chapter, in which low household tariffs, implying thin or non-existent profit margins, have tended to deter investment. Ostensibly, PSAs, a form of public-private partnership, were introduced, therefore, as a means of addressing the problem of underinvestment in the sector.

The key rent-extraction sequence in this first component of the scheme involved control of the commodity exchanges on which the gas produced under the PSAs was sold (NABU, 2018a; *Ekonomichna Pravda*, 2019). This allowed the scheme’s operators to set a gas purchase price close to cost (UAH2,600 per 1,000 cu metres, according to the NABU) to predetermined intermediary firms, which then sold the gas on at the much higher market price (UAH6,900 per 1,000 cu metres) to actual industrial consumers (NABU, 2018a; *Ekonomichna Pravda*, 2016a), with the difference, of UAH4,300 per 1,000 cu metres—implying a profit of 160%, the NABU notes in its case outline—assigned to the accounts of companies linked to the scheme’s organisers (NABU, 2018a). According to these case notes, “officials at UGV…were informed about this scheme, and…contributed to the implementation of criminal activities” (NABU, 2018a). In an interview in *Ekonomichna Pravda*, Andriy Kobalev, then head of the Naftogaz board, said that Onyshchenko had not created the PSA-UGV rent-extraction scheme, but rather took it over from earlier practitioners—including, under Yanukovych, Serhei Kurchenko (*Ekonomichna Pravda*, 2017a), a prominent figure in the network that Yanukovych attempted to build to support his presidency by way of a network of associates around his elder son, Oleksandr (Wilson, 2015, p. 345).

<u>ii) Scheme B. Evasion of subsoil rents is collusion with the heads of the tax authority, 2015-16</u>

According to the NABU, the trigger for the establishment of a second extractive element of the Onyshchenko scheme, running in parallel with the first, was a change in policy, as part of the government’s wider post-Euromaidan energy reforms. This involved a sharp increase in the subsoil rents charged to private mining companies participating in the PSAs at the UVG sites they were exploiting. In response, the NABU writes of the schemes’ participants, “they also decided to save on paying taxes” (NABU, 2018a).

Roman Nasirov, the head of Ukraine’s fiscal service, was the leading public official implicated in the operation of this second mechanism. In particular, without informing the Ministry of Finance, he is reported to have allowed private gas-production firms participating in the PSAs and controlled by Onyshchenko—Nadra Geocentre, Khas and Karpatnadinvest (NABU, 2017b)—to defer payment on the subsoil rents owed for exploitation of UGV gas sites (*Ekonomichna Pravda*, 2019), and to pay instead in instalments over 2015-16, although it was outside the remit of his position to do so (NABU, 2017a, 2017d).

Moreover, the firms in question did not pay the rent instalments. Instead, Mr Nasirov, along with officials from the debt redemption department of the fiscal service, it is claimed, falsified data to indicate that the firms in question did not owe any tax debt (NABU, 2017c), so reducing income flows to the state budget, but boosting significantly the retained rents of the two-part extraction scheme.

Once news of his involvement in the scheme broke in early 2017, Nasirov seems to have feigned illness to try to avoid arrest (NABU 2017a, 2017d). Although bail was set at the considerable sum of UAH100m (US$4m), family and high-profile friends from his network—including Mykola Martynenko, a key political ally of Yatsenyuk who was himself earlier embroiled in an energy scandal linked to the nuclear industry (Andrusiv, 2018, p. 16)—were quickly able to raise the sum to secure his release (NABU, 2017d; Umland, 2017). By way of Martynenko, this seems to link Nasirov with the network "pyramid" around the recently replaced prime minister. On the one hand, some reports suggest that Nasirov was chosen to head the tax service as a compromise candidate between the key parliamentary parties and their related business factions. On the other hand, while Nasirov is reported as being associated with the Poroshenko's BBP, *Ekonomichna Pravda* suggests that, under Nasirov's leadership, the fiscal service was under the control of Ihor Kolomoyskyi (*Ekonomichna Pravda*, 2017b), then informally aligned with Yatsenyuk's People's Front (PF), while involved at the same time in a running battle with President Poroshenko and his networks for political pre-eminence.

Over the full three years of the combined scheme, financial losses to the state came to about UAH3bn (US$120m at average 2016 exchange rates), according to the NABU—with UAH1.6bn-worth of gas "seized" through the production and selling scheme, translating into UAH740m in lost UGV income, but with a further UAH2bn lost to the state through unpaid subsoil rent (NABU, 2019a). Less than a year after the termination of the PSAs, the NABU reports, UGVs profits had risen considerably, to UAH1.3bn, from just UAH25m in three years of the PSA scheme with private gas-production firms (NABU 2017b).

iii) Why did the scheme come to an end when it did?

The question that comes to mind regarding the Onyshchenko-Nasirov scheme is why it ended when and how it did, in prosecution by the NABU—especially as we have seen Onyshchenko performing a useful organisational role for the authorities in parliament. Considering the political associations of the individuals involved, as well as the timing to the scheme's demise, it may have been a case of the authorities strategically permitting the law to take its course, unhindered, for reasons beneficial to them. The first reason is that key personnel affected by the prosecution of the scheme seem to have been associated with the competing network "pyramid" around Yatsenyuk, corresponding to the period of a marked network realignment in the Rada observed in Chapter Five. That is, the authorities may have been happy to see its main competitor group weakened. A second reason is that allowing the NABU to proceed with such a high-profile case would have acted as a useful demonstration to Ukraine's external partners that the country's anti-corruption campaign was making progress, but without hampering the activities of the dominant network alliance around Poroshenko. If this reasoning is along the right lines, then the sacrifice of Onyshchenko as a mid-level operative in the political economy system could have been considered acceptable "collateral damage" (Hromadske International, 2016).

VIII. Regional gas companies (RGCs) step-up gas-market "manipulations" as tariffs for households and industry re-diverge in 2016-17

i) Kirovohradgaz gas tariff arbitrage scheme

My final post-Euromaidan rent-extraction case study examines two gas-sector schemes linked to the Group DF conglomerate of Dmytro Firtash. The details are taken mainly from a report by Naftogaz from August 2017 (Naftogaz Research, 2017), which is analysed also by a Ukrainian think-tank, the Institute for Economic Research and Policy Consulting (IERPC), in its own report on the impact of key post-Euromaidan economic reforms, including those in the energy sector (Burakovsky et al, 2018, pp. 28-31). Key elements of the story drawn from these accounts are corroborated or augmented using a number of locally conducted investigative articles, including a long one in the *Kyiv Post,* produced with support from the Organised Crime and Corruption Reporting Project (OCCRP; Kupfer and Kovensky, 2019).

The Naftogaz authors describe their evidence and reasons for believing that "manipulations" in the regional gas market, which continued on a reduced scale even in the immediate post-Euromaidan reform period, had expanded from 2017 amid a revival of arbitrage opportunities, which involves making money from a difference in the buying and selling prices of commodities in different markets or market segments. The report lists the range of data sources that it draws on, some privileged information reflecting Naftogaz's position as Ukraine's national oil and gas company. So, while its analysis uses macroeconomic data for national gas consumption and chemicals production, it also draws on Naftogaz's own monthly gas data (volumes and sales), as well as its audit of a regional gas company (RGC).

From this "internal audit" of late 2017, Naftogaz reports its discovery of a long-running "manipulation" of a regional gas market by Kirovohradgaz, one of the companies responsible for delivering gas to end-users in Ukrainian regions through their control of the local gas-pipeline infrastructure.[25]

The general mechanism of rent extraction in this case, according to Naftogaz, was that volumes of gas recorded as destined for households, and so qualifying for lower, subsidised household prices, were in fact supplied to industry, either at the market price (arbitrage), so yielding rents to the RGCs, or to a connected industry at the household price, thereby reducing its input costs (transfer pricing). The impact on public finances, therefore, was either on the state budget directly by fraudulently boosting the cost of the household energy subsidy, or indirectly by adding to Naftogaz debt.

In particular, Naftogaz found that in 2009-16, Kirovohradgaz had created accounts for 384 non-existent households across the Kirovohrad region to this end (Naftogaz Research, 2017, p. 6)—although within two years of Naftogaz filing their findings with the police, more such cases were uncovered, taking the

[25] It was only in July 2017, following the change in the joint-stock law requiring 60% of shareholders to approve any management changes (Kupfer and Kovensky, 2019), that Naftogaz was able to retake operational control of Kirovohradgaz, on the basis of its 51% stake in the business. Before that, the firm was run for a decade by Group DF, which dominates Ukraine's regional gas-distribution business.

total to almost 500 (Kupfer and Kovensky, 2019). From its original audit of the firm, Naftogaz reports that the incidence of this practice at Kirovohradgaz, while small in scale, actually picked up during the post-Euromaidan period. While in 2015, therefore, gas sales to such “dead souls” (*mertvi dushi*) accounted for 1.5% of all the gas the enterprise had recorded as being delivered to regional households, and for 2.6% of the total in 2016, this rose to 6% of the total in January-August 2017—that is, before Naftogaz regained management control (Naftogaz Research, 2017, p. 6).

As pointed out earlier in this chapter, the gap between the low, subsidised prices for gas charged to households and heat-generation plants, and those paid by businesses, has been a traditional arbitrage opportunity for rent-seeking elites in Ukraine (see Figure 6.2 above). More broadly, arbitrage schemes, and the original accumulation of wealth they facilitated, it was shown, were an essential element in the creation of the Ukrainian oligarchy as the dominant political economy institution of contemporary Ukraine (Chapter Three).

The significance of the Kirovohradgaz scheme is that, from this relatively small-scale development, the story of a re-opening of rent-extraction opportunities based on changing incentive structures in the domestic gas market can be traced, the re-appearance of such opportunities shaped by developments not only on world energy markets, but also in domestic politics and, most relevantly for this study, by the broad re-balancing of business-political networks within the post-Euromaidan political economy regime from 2016 (a key finding of Chapter Five). As with the Onyshchenko scheme, the one operated at Kirovohradgaz in 2009-17 is reported to have emerged earlier (Borosovsky, 2018), and was simply reused by the firm’s management from the existing stock of rent-extraction routines.

ii) The return to tariff divergence and the political developments behind it

The Naftogaz researchers ascribe this pick-up in the attribution of gas supplies to fictitious accounts to a re-divergence of household and industry gas prices from late 2016, following their earlier brief convergence. The first factor in this overall development was the series of increases in household gas tariffs, outlined above, which led in 2014-16 to the gradual elimination of a plethora of price distinctions offered to households. A second factor was the passage in April 2015 of a new law on the gas market, which switched the industrial sector to payment for gas at market prices (Burakovsky, 2018, p. 29, footnote 40). Although prices to industrial users spiked initially, as a consequence of these developments the marked disparity between household and industrial tariffs narrowed considerably over time. The results of these developments are illustrated in Figure 6.6 below, which is based on Burakovsky et al (2018, p. 29), but which uses price data from the Naftogaz's own archive (Naftogaz, 2018).

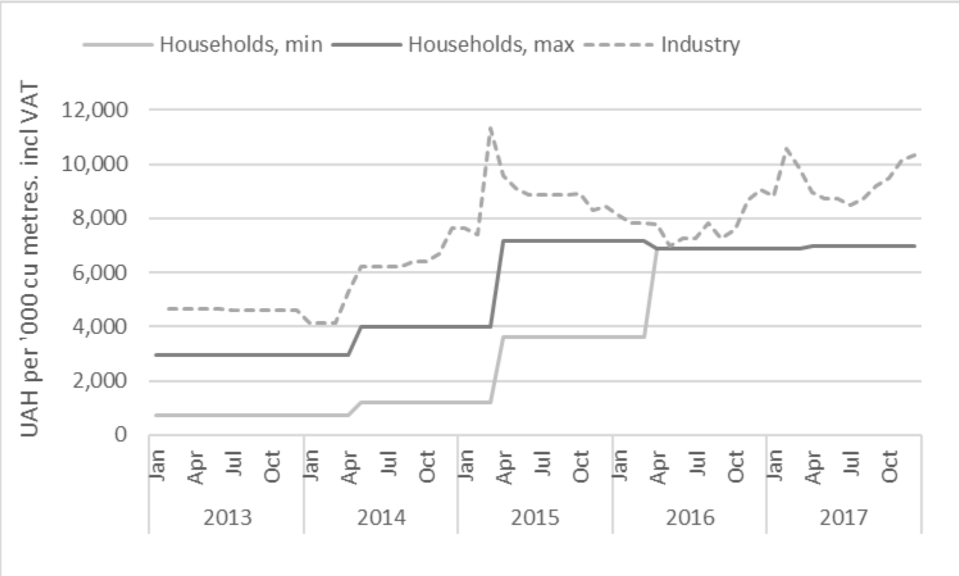


Figure 6.6: Convergence & re-divergence of gas tariffs for household & industrial users, 2013-17. Sources: Naftogaz (2018); based on Burakovsky et al (2018, p. 29). Naftogaz. (2018). Available: https://bit.ly/2VRwkvU. [Accessed September 19th 2021.] Based on Burakovsky et al (2018, p. 29). The Institute for Economic Research and Policy Consulting. Available: https://bit.ly/3jY3aEw.

In the chart, gas prices charged to industrial consumers are represented by the dashed, light grey line, and prices to households, rising in steps, by the solid dark and lighter grey lines. To simplify the complex and shifting array of household tariffs ahead of their unification in April 2016, only the minimum and maximum household tariffs are shown (these are prices to the end user, including VAT and transport, rather than cost price). In the course of 2015 and early 2016, it can be seen, the household and industrial tariffs began to converge. This is indicated on the chart by the approach of the lighter grey dashed line and the solid dark line to one another in early 2016. The tariffs for the two market segments quickly returned to divergent paths thereafter, however, so that, by 2017, industry was paying 35% more for its gas on average than households (Burakovsky et al, 2018, p. 29), thereby incentivising a return to gas-market “manipulations”, such as that of Kirovohradgaz above.

Alongside movements in global energy markets, the recreation of conditions conducive the re-divergence in gas prices corresponds to a number of domestic political developments. The first was the passage in October 2015 of legislation by the second Yatsenyuk government reasserting the public service obligation (PSO) of Naftogaz (Burakovsky et al, 2018, p. 29, footnote 41)—in effect, reaffirming price regulation for the household segment, albeit with household prices now at a higher level. This was probably conditioned by plummeting support in the polls, not only for the government, hit that autumn by the onset of disintegration of five-party parliamentary coalition, but especially for Yatsenyuk’s own party, People’s Front (PF). So, having won just above 22% of the popular vote in the general election of October 2014, already by 2015 opinion polls showed PF support below 5% (Razumkov Centre, 2017). The second political development came in 2017 when, faced with a proposal from Naftogaz for another significant rise in household gas prices from October 2017, in line with a previously agreed adjustment mechanism to ensure that household and commercial gas prices remained roughly in step, the Hroysman cabinet balked, and voted against (Dabrowski, 2017, pp. 5-6). Although this decision, too, may have been influenced by the low or declining level of popular support for government leaders and parties, it also appears to have been part of a broader campaign by the authorities to undermine the reformist leadership at Naftogaz, with a view to reasserting control over the company, and so too the income streams of its most profitable subsidiaries (Ukrnafta and Ukrtransnafta), possibly with an eye on funding the next round of elections, then scheduled for 2019 (Konończuk and Matuszak, 2017). In turn, the scene for the authorities’ campaign had been set, first by the onset of economic recovery, reducing the pressure to pursue reforms in order to qualify for external loans, and second by the network rebalancing of 2016, one result of which was the easing aside of the main rival network pyramid of around Yatsenyuk.

iii) “Top down” evidence for the re-emergence of a transfer pricing scheme within Group DF: cheap gas supplied to connected fertiliser producers

Over the period of operation of the Kirovohradgaz scheme, the gas volumes diverted to non-existent households by the firm’s management is reported at 9.8m cu metres, then valued at around UAH80m, or US$3m (Kupfer and Kovensky, 2019). However, the “bottom-up” evidence from the audit of Kirovohradgaz’s accounts, the Naftogaz researchers believe, supports their suspicion, based on an analysis of trends in the sectoral data, that such practices are likely to have been more widespread among Ukrainian RGCs, between them accounting for the misallocation of an estimated 0.6 bn cu metres of natural gas per year in 2015-16 (Naftogaz, 2017, p. 6), out of a total of around 32bn cu metres consumed annually in the Ukrainian economy in these years (see Figure 6.4 above). Although this sounds relatively small in scale, the market price of such a volume of natural gas, using the average “German border” import prices calculated earlier to assess the value of the Poltava gas deposit, would have been around US$100m-150m per year. The calculations behind this are set out in Table 6.3 below.

Table 6.3: Estimated value of volumes of gas involved in regional "manipulations", 2016-17

	Estimated gas volume ('000 cu metres)	**Estimated German border price (US$/ '000 cu metres)**		**Value of "manipulated" gas volume (US$ m)**	
		Low estimate	**High estimate**	**Low estimate**	**High estimate**
2015	600,000	229	243	137.4	145.8
2016	600,000	168	178	100.8	106.8

Sources: Naftogaz Research. (2017). Naftogaz. Available: https://bit.ly/3rC9wvC. [Accessed July 27th 2021.] Prices estimated from *bp Statistical Review of World Energy 2020* . Available: https://on.bp.com/3ol8l3Z. [Accessed July 1st 2021.] Own calculations.

The Naftogaz authors, however, present a second, tightly argued example of exploitation of the opportunity for rent-extraction from the re-divergence of domestic gas tariffs from mid-2016, but this time reasoned from “top down” evidence—that is, based on evidence from divergent trends in macroeconomic data for gas consumption and the production of fertiliser inputs (Naftogaz Research, 2017, pp. 4-5). They show that, in 2009-12, according to this data:

- household consumption of natural gas in Ukraine climbed from 16.6bn cu metres to 17.3bn cu metres;

- the output of fertiliser rose from 3m tonnes to 5m tonnes; and
- there was a fall in the average volume of natural gas used per unit of ammonia produced.

These divergent trends, the authors suspect, correspond to the diversion of cheaper, subsidised gas, earmarked for households, to fertiliser production by Firtash's Group DF, facilitated by its dominance of the both regional gas-supply network and the chemicals sector (Burakovsky et al, 2018, pp. 29-30). Although the authors describe this, like the Kirovohradgaz scheme, as arbitrage, it is more reminiscent of the practice of transfer pricing, as outlined in the literature review (Chapter Three), with the state covering the cost of cheap production inputs supplied to a related business. With the onset of energy reforms from 2014, the trends suggestive of transfer pricing come to a halt, the data show—so that the intensity of gas used in ammonia production reverts back to its 2009 level—but then resumes in 2017 as the divergence in household and industrial gas tariffs again offered savings in input costs for the manufacture of ammonia. The evidence on which the Naftogaz researchers base this conclusion include:

- a year-on-year rise in household gas consumption in January-August 2017;
- the resumption of ammonia production at Group DF plants from February 2017;
- a decline in gas use by Group DF companies supplying thermal power (heating) to the population.

It unreasonable, but indicative, the authors think, that trends in household gas consumption and heating supply—assumed both to be driven by changes in temperature—should move in opposite directions, deducing from this a return to the profitable misallocation of gas supplies from connected RGCs to Group DF fertiliser producers (Naftogaz Research, 2017, p. 5).

iv) Section conclusions

The "twin" case study on the purported rent-extraction schemes of Group DF regional gas companies (RCSs) sheds light on the political dynamics of implementation of energy-sector regulations in this period, as it interacted both with public opinion, with economic stabilisation and with evolving relations between key state institutions and business networks. That is, the revival of rent-seeking opportunities, following the general crisis of 2014-15, can be seen as a response, not only to economic developments (fluctuations in global energy prices abroad and the onset of economic recovery at home), but also to falling government popularity linked to energy policy, as well as to the state of relations between elite networks. On this last point, the realignment of networks in the Rada in the course of 2016, involving the political reintegration of those groups side-lined by the Euromaidan events, sets the basis for the consolidation of the leading position of the “government camp” around Poroshenko as president and Hroysman and prime minister.

With the worst of the crisis past, and the requirement for external financial assistance no longer so urgent, it was from this more secure position that the dominant “pyramid” was able to launch its campaign to reassert control over Naftogaz by attempting to undermine the company’s reformist management, including by refusing to raise household gas prices in line with the agreed mechanism, failing thereby to curb the re-divergence of gas tariffs. One of the authorities’ steps in the clash with Naftogaz management was to try to raise from five to seven the membership of Naftogaz’s supervisory board, thereby “diluting” its reformist element (Konończuk and Matuszak, 2017). This in turn is the background to the resignation in September 2017 of the more independent members of the supervisory board—appointed only the year before—which marks the effective end of the energy reforms that began in 2014 (Antonenko et al, 2018).

If, then, the relation of the two gas-market “manipulations” by the RCGs alleged by Naftogaz appear more reflexive than the result of another behind the scenes agreement within the elite—that is, of an explicit exchange of political support in parliament in return for greater room for manoeuvre in the pursuit of rent-extraction opportunities—then a more direct line of connection can be seen in the construction in relatively large-scale rent-extraction schemes outside of the gas sector. Namely, the political reintegration of Akhmetov and his SCM network corresponds chronologically with his initiation of the so-called Rotterdam plus scheme, by which the price of Ukrainian-mined coal supplied to local power plants was set according to coal prices on Rotterdam commodity markets, plus transport costs from the Netherlands. Serhiy Leshchenko ties the political go-ahead for this scheme to Akhmetov’s purported control of half of the MPs of the Opposition Bloc (Leshchenko, 2016) in the Rada.

For the Naftogaz researchers, because the re-affirmation of price regulation implied by the passage of the PSO law in October 2015 was a key factor behind the re-divergence in domestic gas tariffs, incentivising a step-up in rent-seeking activity, the reunification of gas tariffs is the appropriate measure with which to tackle this. If my account above is on the right track, however, this mistakes an effect for a cause, and so is unlikely to prove successful. That is, the policy proposal skirts a more fundamental problem underlying the one the researchers identify. This is that, in a crisis, while the flexible political economy regime submits to the pursuit of reform, and so the restriction or closure of rent-seeking opportunities, as a measure of systemic preservation, it also permits a return to the status quo ante, and so to the reopening of rent-extraction opportunities, once the crisis passes.

Two other small points drawn from the twin case study are relevant the theme of this study. On the first, the Naftogaz researchers argue that Ukraine’s RCGs are energy intermediaries of the same kind as the “historical” UESU and RUE intermediaries, but in miniature—that is, run to extract value, rather than to provide any value-added services. A second is that, the alleged Group DF transfer-pricing scheme was facilitated by its dominance of related economic sectors (regional gas-supply infrastructure and chemicals production). That is, the facilitating market dominance itself has a history that is intimately bound up with the evolution of the dominant political economy regime. In particular, Firtash was able to acquire the bulk of the RGCs (70%) in phases, starting in 2007-08 (Burakovsky, 2018, p. 30, footnote 43) on the back of his accumulated RUE wealth, then again through “crony” privatisation under Yanukovych, as well as four out of six of the biggest chemical producers (Burakovsky, 2018, p. 30), as “payback”, it is usually assumed, for his financial and media backing of Yanukovych’s presidential campaign.

D. Comparison of gas-sector rent-extraction schemes and conclusions

IX. Comparative taxonomy of the five gas-sector rent-extraction case studies

From the five energy-sector rent-extraction case studies examined in this chapter—two historical and three post-Euromaidan—it is possible to draw up a shortlist of the kinds of actors and institutional structures, and the relations between them, involved in each scheme's rent-extraction mechanism. To bring out the similarities and differences, Table 6.4 below summarises each across a range of recurring institutional and operational features. The presence of a feature—whether the scheme made use of shell companies, for instance—is marked by a tick. A cross indicates either the absence of that feature, or that no specific information on it was given in the source material.

The first point to note from the table is the high number of features listed, indicating the relatively complex alignment of business and political elements required to execute such schemes (at least, it looks complicated viewed from the outside). A second point, indicated by the prevalence of ticks in the body of the table, across features 4 to 12, is that there is considerable overlap in the means used to run the schemes and the kinds of institutions involved, across political, economic and bureaucratic spheres. That is, the schemes often include similar operational components—in terms of the kinds of business vehicles deployed, for example—conducted by networks' positional institutional contacts. This recalls the "structural-relational" definition of the Ukrainian oligarchy from the beginning of this study, as a ruling political economy institution made up not just of the very rich, but also of their business networks in alignment with position-holders in the state and the bureaucracy.

Table 6.4: Some key features of elite rent-extraction schemes in the Ukrainian gas sector, 1995-2017

(Key: tick = feature present; cross = feature not present or not specifically noted in source.)

	UESU	**RosUkrEnergo (RUE)**	**Poltava gas permit**	**Onyshchenko-Nasirov gas & tax**	**RGC schemes**
A. Scheme Identification					
1. Main energy companies involved	UESU; UEI; Somolli	RUE; UkrHazEnergo	Arkona; Ashburi	UGV; Nadra Geocentre, Khas, Karpatnadinvest	Kirovohradgaz; Group DF
2. Approximate dates running	1995-18	2005-08	2016-17	2013-16	2016-17
3. Key rent-extraction mechanism(s)	Use of state position to award gas import contracts to connected firms	Buy gas cheap from Gazprom, sell to Naftogaz at higher price	Permit for prepared deposit bought on low reserves estimate, without going through competition process	Constructed arbitrage via PSA, evasion of subsoil rents by connection to tax authority	Allocation of gas to non-existent households to qualify for gas subsidy
B. Scale (gas volume, financial value, geographical extension, extraction intensity, economic or political impact)**?**					
4. Was it large?	✓	✓	✗	✗	✗
C. Positional-institutional authority/ power links					
5. Was Russia the main international gas supplier?	✓	✓	✗	✗	✗
6. High-level domestic political backing? (POLITICS)	✓	✓	✓	✓	✗
7. Involved personnel in the state apparatus (civil service, state energy firm) (BUREAUCRACY)	✗	✓	✓	✓	✗
8. Collaboration of public & private organisations through shared network personnel?	✓	✓	✓	✓	✗
9. Associated with one of the leading domestic regional business-political networks (ECONOMY)?	✓	✗	✓	✓	✓
D. Operational elements of the scheme					
10-. Was there an non-value-adding intermediary involved?	✓	✓	✗	✓	✓
11. Was a fictional firm/ shell company involved?	✓	✓	✓	✓	✗
12. Use of international legal & financial "wealth management" infrastructure?	✓	✓	✓	✗	✗
Other contextualising tools					
13. Political economy regime					
How does operation of the scheme reflect stage of evolution of the oligarchy: the balance of relations of political authority with main networks?	Upsets network balance: energy rents centralised in Naftogaz	Source of network rivalry in the Orange period; aids victory of Yanukovych	Poroshenko network alliance clashes with Kolomoyskyi/ Privat, aligned with Yatsenyuk	The authorities around Poroshenko/ Hroysman permit the law to take its course against rival network pyramid	Reflects opportunities made available by network realignment in 2016, & of reassertion of Naftogaz control by the authorities (Poroshenko/ Hroysman) permitted by it
14. Shaped by post-Euromaidan energy policy					
Tariff hike					✓
Energy diversification			✓	✓	✓
Reform of energy sector regulation				✓	✓
Restructuring of Naftogaz			✓		

Source: Own compilation from the analysis of the chapter.

What, then, does an "archetype" Ukrainian gas-sector rent-extraction scheme entail? From the table, we can suggest that its operation centrally involves public-private collaboration, of oligarchs' business-political networks in alignment with and reaching into the state apparatus, often using a non-value-adding intermediary inserted into the supply chain between producer and consumer as the business structure of extraction, possibly in co-operation with like-minded political economy actors from the external supplier, but usually licensed by high level political authority and usually making the international financial and legal infrastructure of the "wealth management" industry to protect the material gains of the extraction scheme.

On the historical "benchmark" rent schemes, it was noted above that where Lazarenko and his associates had innovated, the RUE intermediary scheme seemed to scale-up and deepen the rent-extraction process. A second distinction between these older schemes—indicated in Table 6.4 as a cross under the RUE scheme against feature 9—is that Firtash does not seem to have risen to his position in the front rank of Ukrainian oligarchs primarily by way of one of the Ukrainian regional business-political networks, but rather through political-administrative links to Russia. As more "externally sponsored", his scheme and business network appear to some extent to have been inserted into Ukrainian politics from the outside as a kind of "political intermediary", just as RUE itself was inserted as an economic one into the gas trade. In some ways, this second distinction helps to explain, or permits, the first.

Between these "benchmark" schemes and the more recent post-Euromaidan ones, the key contrast is one of scale. This is shown on the Table 6.4 by the line of crosses marked under these later schemes against feature 4. That is, all of the post-Euromaidan gas schemes examined here, though continuing like their forebears to damage Ukraine's public finances, appear much smaller in scope—whether in terms of the size of the rents accruing to the schemes' operators, the gas volumes involved, or their economic and political-institutional impact—as well as more geographically delimited than the earlier ones, particularly the RUE scheme. The crucial explanatory factor here is the re-orientation of gas imports away from Russia, which is shown in Table 6.4 by the series of crosses under the post-Euromaidan schemes on feature 5, mirroring those on scale directly above. This leads to a striking conclusion, which is that the break in direct imports of gas from Russia in 2014-16 was itself in practice one of the key “anti-corruption” measures of the post-Euromaidan period, because it cut off access to “external” rents. At the same time, by changing the opportunity structure, the same “reform” may have stoked rivalry among rent-seeking actors over the remaining domestic energy rent opportunities, encouraging both a degree of scheme innovation, as well as a shift to energy sectors other than gas.

I have argued that evolution in Ukraine’s overarching political economy regime in the post-communist period has both shaped, and been shaped by, the operation of large-scale energy rent-extraction schemes. So, if the Lazarenko intermediary impinged on the interests of rival regional networks, upsetting the balance of their relationship to the Kuchma presidency and triggering the establishment of Naftogaz in response, the RUE scheme was also a source of network contestation during the “multi-pyramid” Orange era, but with the large-scale rents drawn from it in the end helping to pave the way for the Yanukovych presidency. Similarly, the smaller post-Euromaidan gas schemes were shaped by developments in institutional relationships within Ukraine’s political economy regime, and so the corresponding pursuit of, and then partial retreat, from energy reforms. The workings of the Poltava gas-permit scheme were thus portrayed in the context of a wider struggle between elite networks, while the ending of the Onyshchenko-Nasirov scheme seems to have fallen foul of the realignment of such networks in the course of 2016. The gas-market manipulations by Group DF RGCs, by contrast, may not have been pre-agreed in the same way as the Rotterdam Plus project, marking Akhmetov’s re-integration into Ukrainian politics, but rather as a more opportunistic and reflexive response to a return of a rent-seeking opportunities as these appeared, linked to the wider network reset and the consolidation of the Poroshenko network pyramid that this permitted. On energy policies, although in their scale all three post-Euromaidan schemes seem to show the impact of the diversification of gas imports away from Russia, the gas-permit scheme was pictured against the broader backdrop of government attempts to restructure

Naftogaz; the Onyshchenko-Nasirov scheme, in part in response to a change in gas-sector regulations on PSA subsoil payments; while the RCG "manipulations" were first restricted by the impact of the rise in household gas tariffs, then re-ignited by the government's failure to keep households and commercial gas tariffs in line.

X. Some wider systemic observations

The low degree of separation of public political from private economic activity, characteristic of the political economy setting of modern Ukraine, has already been touched upon, perhaps rather abstractly, in this dissertation. In the five rent-extraction schemes examined here, however, it is possible to observe this phenomenon more concretely, in operation. Specifically, in the management of Kirovohradgaz by Firtash's Group DF, until the reassertion of control by Naftogaz in late 2017, we see a parallel with the relation of Kolomoyskyi's Privat Group to Ukrnafta, recounted in the gas-permit case study. That is, in each instance, we see an example of a majority state-owned business being managed over the long-term by a minority private shareholder, highlighting ambiguities in the nominal distinction between public and private property. To take this point further, it could be argued that this is a property form that expresses well the character of the Ukrainian oligarchic system more broadly—that is, a fusing public and private, of formal and informal, of political and economic, the institution existing as all of these simultaneously. In turn, this highlights a more general point, often glossed over in mainstream economics, which is that forms of ownership are themselves culturally variable and institutionally determined.

Alongside the many similarities in organisational components systematised in Table 6.4, a striking feature of the gas schemes, also telling of the institutional whole and of the mode by which its recreation occurs, is the repetition, recycling, re-combination and recreation of "stock" scheme elements, or extraction mechanisms, drawing on rent-seeking models stretching back to those of the early, generative days of the oligarchy in the 1990s (some of these were summarised in Table 3.2 in the literature review). That is, there is a fairly limited repertoire of rent-extraction routines, but for informal actors, these can be reused in different combinations, depending on the political circumstances and opportunities. So, for example, rather than a response to the contingent misalignment of price levels between markets, as with the original arbitrage schemes of the early 1990s, the first part of the Onyshchenko scheme appears as the artificial reconstruction of an arbitrage opportunity. As with the Onyshchenko case, the two RGC schemes examined show the routine redeployment of traditional rent-extraction practices (arbitrage and transfer pricing), as changing political and economic conditions allow. Even if, as in 2014-15, therefore, customary rent-extraction schemes are forced to continue in a more limited manner amid sectoral reforms prompted by a crisis that threatened “regime” stability, both the transmitted network knowledge and personnel remain in place and ready to resume such schemes when opportunities open up politically once more.

<u>Chapter Seven.</u> Conclusion: What kind of institution is the Ukrainian oligarchy? How was it able to survive the Euromaidan? Through which channels are the main economic side-effects of its reproduction felt?

A. Main empirical findings and conclusions brought together

The central concern of this dissertation has been an investigation of the generation and reproduction of Ukraine's post-communist political economy regime, "the oligarchy". The aim has been to trace the role of wealth as a material resource power in this process, looking for connections between its economic and political practices as a way of understanding how the Ukrainian oligarchy as an institution managed to survive the shock of the Euromaidan revolt and its aftermath more or less intact, despite an official "de-oligarchisation" drive, the onset of war with Russia, and the country's perennially sub-par economic performance. Among the main findings and arguments of the empirical chapters of this research were the following.

- Although the domestic business wealth of the Focus-100 rich fell by half as a share of national wealth between 2010 and 2017, from 18% to 9%, this need not imply a fall in the potential material power available to oligarchs to influence politics, not least because of the scale of wealth they are likely to hold abroad.
- There was a marked break in the pattern of voting on political economy reform bills in the Verkhovna Rada (parliament) following the formation of the Hroysman government in April 2016, linked to a realignment of parliamentary and political network forces. This was interpreted as indicating a final stage in the reconstitution of the Ukrainian oligarchy as a transactional relation between elites following the systemic disruption of the Euromaidan revolution.
- Amid energy sector reform brought on by the general crisis of 2014-15, rent-extraction schemes in the Ukrainian gas sector became smaller, compared with earlier, high-profile intermediary schemes. This was probably linked in particular to the reorientation of gas imports away from Russia, which reduced the scale of "external" rents available to local

actors. With the political consolidation of the network "pyramid" around Poroshenko and an abatement of the financial and economic crisis, however, from 2016 rent-seeking opportunities in the energy sector appear to have opened up again.

To aid the development of a more rounded, but still concrete picture of the Ukrainian oligarchy as a resilient political economy institution, some of the main conclusions of the empirical chapters are brought together below.

So, while an analysis of the Focus-100 series shows the top echelon of Ukraine's economic elite as a small group controlling a high share of society's wealth, a range of indicators suggest that wealth inequality in Ukraine is high in international comparison. Within this group, it was shown that a relatively higher level of wealth was one explanation for longevity at the top end of the rankings, in line with the broad prediction of the theory of wealth defence. Key factors behind the concentration of wealth in Ukraine in the post-communist era include the original generative and ongoing institutionally licensed rent-extraction schemes of the Ukrainian oligarchy; the skewing of privatisation in their own favour by the same emergent political economy elites; and the large scale of the "external rents" available to them by way of intermediary schemes run in collusion with Russian counterparts, at least up until 2014.

Evidence of institutional continuities spanning the Euromaidan events was shown between parliaments, as well as between parliament and the economic elite, in the form of personnel overlap of MPs with the Focus-100 rich list. Those lawmakers who held seats in both the seventh and eighth Rada convocations ("old hands"), who were also among the wealthiest and longest-lasting members of the Focus-100 (the "core rich"), were identified as among the most enduringly successful of Ukraine's political economy actors—a tiny group dominated by oligarchs, defined as the nationally politically active rich. Moreover, revelations in the Ukrainian press regarding "black ledger" payments of Yanukovych's inner circle and Whatsapp text exchanges in parliament under Poroshenko point to continuity in the informal practice of vote-buying, which helps to explain the mechanics behind sub- and cross-factional Rada voting patterns. Despite a degree of systemic rupture in 2014, signalled by collapse of

Yanukovych's "power vertical", the carryover of institutional personnel, and especially of the whole repertoire of adaptable, informally understood and interlinked political and economic practices, it was argued, go a long way towards explaining the resilience of the Ukrainian oligarchy across crises. This is what is meant by the institutional continuity of the political economy regime. It is this institutional context that helps to explain why the decline in domestic material resource power of Ukraine's economic elite, and especially of the subset of oligarchs among them, need not imply a decline of potential political influence. This argument is backed also by likely scale of wealth that Ukraine's key political economy actors are assumed to hold abroad, underscoring the supporting role of the international financial system in sustaining them in the face of political setbacks at home, so aiding the resilience of the oligarchic system itself.

The Rada can be viewed as one of an ensemble of "essential" sub-sites within the state apparatus on which the oligarchy as an informal institutional relation between the leaders of the main business-political networks and current state positional elites is continually renegotiated and reachieved. In this light, the goal of the leading oligarchs in exerting material control over Rada votes may not be to influence the voting outcome of any specific piece of political economy legislation, as the votes they control are often too small to make a decisive difference to the voting outcome. Rather, it may be to give them a seat at the bargaining table with other leading wielders of resource powers, as the least risky strategy for the protection and augmentation of their business interests. Another way of putting this is that the effective application of the material resource power of individual oligarchs is mediated by the current state of relations of the main business-political networks to each other and to the state.

Detailed descriptions of the operation and modes of protection of elite rent-extraction schemes in the Ukrainian energy sector, viewed as affected by the policy and political economy environments that they also helped to shape, allowed for the connection of network actions in one location with network material goals in another across the oligarchy's constituent sub-institutions, illustrating concretely both what a low degree of separation between the political and economic spheres looks like in contemporary Ukrainian practice, as well as the means by which the institutional whole is continually strung together.

"Flexibility" is a quality integral to the operation of Ukraine's political economy regime, manifesting itself in several ways. That is, not only in the porous organisational forms operating in the Rada, but also in the room for manoeuvre this allows for network and political realignment, through which the Ukrainian oligarchy as an institution evolves in response to political and economic developments. Not only in a relaxed approach to the observance of laws and other formal regulations, but also the submission to external conditions of reform to qualify for foreign loans as a means of systemic preservation in a crisis, but without relinquishing the means by which such reforms can be bypassed, subverted or reversed once the crisis passes. That is, flexibility, porousness and looseness are qualities required for the normal operation of a political economy model in which networks of personal connection are central.

The more rounded picture that emerges of the Ukrainian oligarchy from the assembly of these findings and conclusions, then, is of an adjustable institution which, founded upon extreme economic inequality that it continues to perpetuate, has been able to survive and adapt in the wake of periodic disruptive crises by way of a stock of customary, reusable informal political and economic schemes conducted by sometimes rivalrous, sometimes co-operative hierarchical networks.

B. A "currency flow" model of the process of production and reproduction of the Ukrainian oligarchy

I. The national circuit

It is possible, however, to abstract from the main research findings and conclusions of this dissertation to develop a broader, more general account of how the Ukrainian oligarchy operates and keeps going. (The following section is an expanded version of the conclusion to an outline of my research that I wrote for Vox Ukraine, a Ukrainian economics website; see Dalton, 2021.)

In this account, set out schematically in the diagram below (Infographic 7.1), each of the capacities or practices examined in this study—of extreme wealth concentration, of the deployment of wealth as material power for political influence, and of wealth extraction by way of political links to the state—can be seen as parts of an interconnected, iterative process. The circular depiction is supposed to suggest the idea that the stock of wealth, as elite material power over society, once generated, operates as both a practical facilitator and motivational end-goal—as both the motor and the prize—of the political and economic routines that constitute the Ukrainian oligarchy as a self-reproducing institution. The notion of a "currency flow" aims to convey a sense of wealth in motion as both money and power, the first recalling the "circular flow of income" model from mainstream macroeconomics, and the second the flow of electric current on a circuit, with the diagram's inner loop perhaps evoking the image of a benzene ring, in which the sharing of electrons binds the structure.

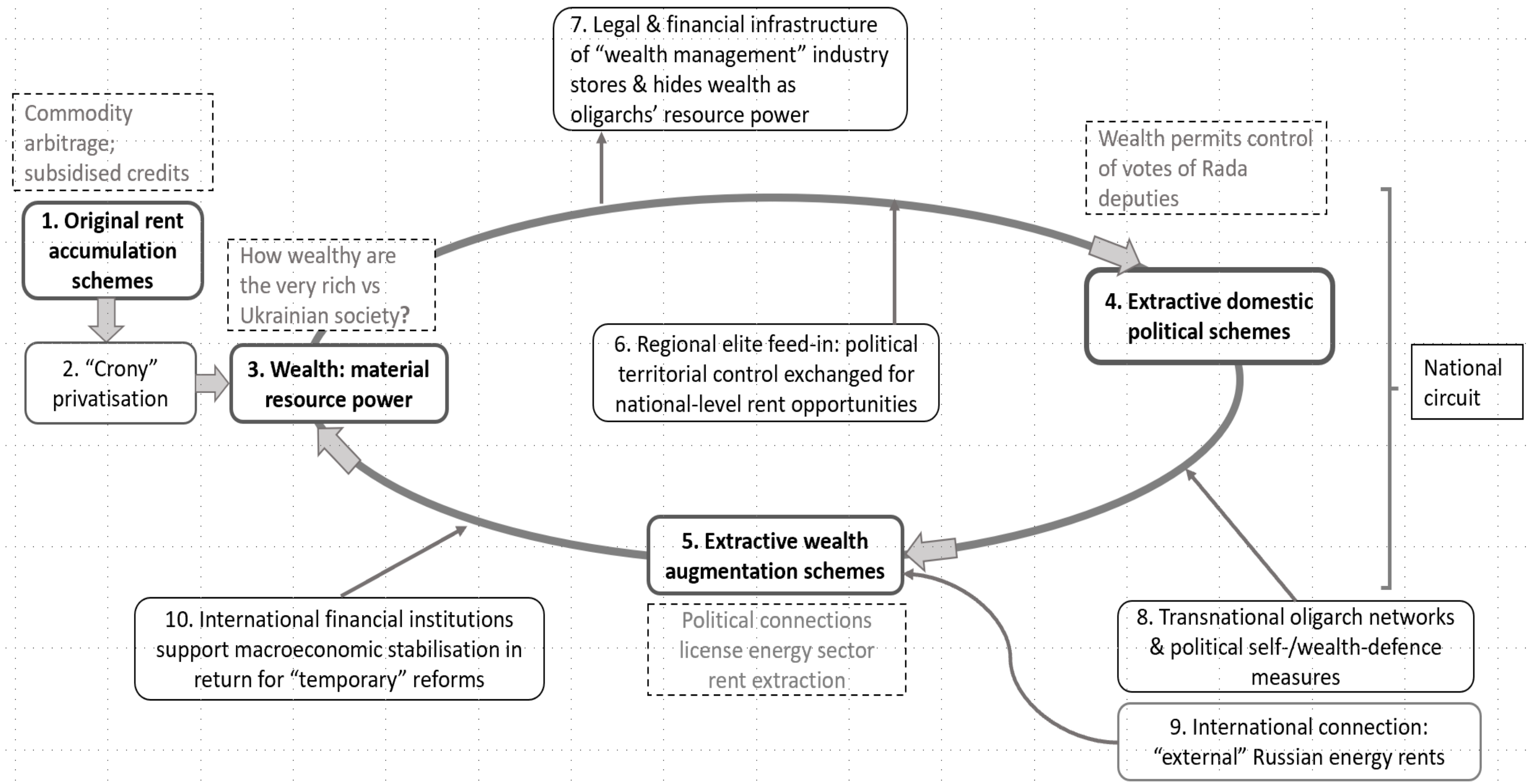
The specific parts of this process investigated in depth in this study correspond to points 1, 3, 4, and 5 of Infographic 7.1, forming the "national"-level circuit of institutional reproduction. These are:

- the original rent accumulation schemes described in the literature review (Chapter Three), including, for example, commodity arbitrage and subsidised credits (point 1);
- the changing patterns of wealth of the richest Ukrainians as a material resource power, or wealth relative to Ukrainian society, which was analysed in Chapter Four (point 3);
- the control of votes in the Rada by material means, the subject of Chapter Five, as an example of an "extractive" domestic political practice (point 4);
- the adaptation to the changing politics and policy of post-Euromaidan gas-sector rent-extraction schemes (Chapter Six) as an example of the operation of extractive economic rules conditioned by extractive political ones (point 5).

Moreover, the role of privatisation (point 2 on the diagram) in the formation of the Ukrainian oligarchy in the 1990s—aided by wealth generated from the original rent accumulation schemes, but in turn boosting the stock of elite material resource power—was discussed in Chapter Four as one of the explanations for the very high degree of wealth concentration in Ukraine.

Infographic 7.1: Currency flows of the Ukrainian oligarchy

The "national" circuit of reproduction, with key regional & international connections



II. Regional and international supportive links

Of course, the buying of legislative votes and the extraction of energy rents do not constitute a complete account of the range of political and economic practices, and systems of support, through which Ukraine's post-communist political economy regime is continually replicated, even at the national level, since there are many other schemes—some set out in the literature review (tables 3.2 and 3.3), and others encountered elsewhere in the dissertation—that could be placed in slots 4 and 5 of the "national circuit".

At the same time, the national-level processes are conditioned by feed-ins and outflows at the regional or international levels. To acknowledge this—as well as to forestall the possible charge of "methodological nationalism", by which social processes are investigated as if they took place wholly within the bounds of the nation state—the "currency flows" model indicates several points of connection to the national circuit, both from "below" and from "above", representing links with regional- and international-level practices that, at different times, have helped to generate or to stabilise the national-level system, holding it together or aiding its recovery following a crisis.

At the regional level (point 6 on the diagram), relatively resource poor provincial elites may be able to use their network influence in local politics to deliver votes or seats to larger, better-resourced networks able to exert an influence nationally, in exchange for access to national-level rent opportunities or state positions (Andrusiv et al, 2018, p. 12). This is the level of Henry Hale's "bosses" and their "territorially circumscribed" political machines, whom he describes as one of the three broad kinds of actors, along with oligarchs and state officials, around which political economy networks coalesce in patronal societies (Hale, 2015, p. 10, 29).

In the case of leading individual oligarchs, the ability to make use of the international legal and financial systems—each, like the Ukrainian oligarchy, composed of formal and informal dimensions—to register firms, and to channel profits and economic rents abroad to store as hidden wealth (point 7), permits their survival in case of political defeat or side-lining at home, but with their material resource power (and oligarchic network know-how) intact, facilitating a return to politics when events again turn in their favour. The fortunes of Ihor

Kolomoyskyi during the Poroshenko period, when he was temporarily side-lined, and then at the start of the presidency of Volodymyr Zelenskyi in 2019, whom Kolomoyskyi had backed for the post, could be viewed in these terms.

Examining the post-communist period in Ukraine as a whole it is possible to argue that both the services of the international "wealth management" industry and the interventions of the international financial institutions (IFIs), such as the IMF (point 10 on the chart), have acted as vital supporting actors for Ukraine's political economy regime, albeit, perhaps, in "Hyde" and "Jekyll" roles. That is, I have argued, successive IFI interventions to stabilise the Ukrainian economy in a crisis have tended to be used by the Ukrainian elite for their own ends, just as in the case of privatisation. Specifically, Ukrainian elites tend to allow reforms to proceed for as long as external aid is required to prevent an economic crash that could threaten the survival of the political economy system, but then halt or row back on these reforms once the crisis has passed, carrying on much as before. (This may not be a planned occurrence, but rather just a settling back down to into everyday routine.) In different ways, therefore, the roles of both kinds of external actor help to explain longevity of oligarchic system across crises.

The "external" rents (Balmaceda, 2013, p. 95) generated via energy supplies from Russia (point 9) were identified in Chapter Six as one of the key factors, alongside early rent-accumulation schemes and skewed privatisations, that provided the means and incentives for the formation and perpetuation of Ukraine's oligarchic system. The disappearance of these rents following the onset of war with Russia from 2014, I suggest, was perhaps the major "anti-corruption" policy success of the early post-Euromaidan era, as it greatly reduced the size of external rents available.

On point 8 of the "currency flows" graphic, perhaps the clearest and most recent high-profile instance of what could be termed "transnational oligarchy", or co-operative interpersonal links between wielders of material resource power or their representatives across national boundaries, may have been the attempt by Ukrainian oligarchs and network operatives to take advantage of a complicated conspiracy theory propagated by the administration and support networks around Donald Trump, then US president, both to deflect charges that Russia had interfered on Trump's behalf in the 2016 presidential campaign (it probably had, but perhaps not very effectively), and to discredit his rival, Joe Biden, in the then approaching 2020 presidential election.

In sum, the joined-up series of political-economic practices are the moving parts of the oligarchy, the oligarchy in motion, with the external feeds from "above" and "below" acting as critical support systems for it—that is, for the constitution and reconstitution of the same or very similar political and economic practices, the political economy regime—across disruptive junctures.

C. The Ukrainian oligarchy as a process vs a relational structure

From this schematic outline, it is possible to arrive at a revised definition of the Ukrainian oligarchy as **an institution habitually reproduced by its extractive political and economic practices, interconnecting at regional, national and international levels, motivated and facilitated by wealth**. In combination, the process conception, the reproduction schema and the revised definition of the modern Ukrainian political economy regime that follow from them is one of the key results and contributions of my study.

Compared with the definition developed earlier in this study—that is, of the Ukrainian oligarchy as the relation between the business-political networks of oligarchs and successful politicians—the revised one offers an understanding of Ukraine's political economy regime as an institution made up of its moving parts, which inform and adapt within an evolving whole. Both definitions can be useful, as the right tools for addressing different kinds of research question. The structural conception was helpful, for example, as a starting point of the investigation, and remains so for the diagrammatic "snapshot" approach to representing presumed network "orbits" of key political and economic actors, such as the one by Konończuk (Figure 3.1). However, it presents a more static image, and the second a more flexible and fluid one. That is, I would say, the second concept is a more informative generalisation because it approaches more closely the way that the oligarchy as an institution actually works. Another advantage of this second, process formulation is that it helps to separate out analytically key capacities, practices and roles in institutional reproduction that, in reality, are fused. It offers a flexible framework for locating an examination of other oligarchic practices, not covered in this research, in the context of their connections with the wider, developing whole. Other advantages of the second formulation stem from its cyclical perspective and its explicit recognition of the international dimension in the recreation of Ukraine's political economy model. These are worth dwelling on for a moment, not least because of their potential practical implications for future development policy.

III. Elite cycles

The cyclical conception of reproduction of elites presented by Infographic 7.1 is broadly in line with a burgeoning scholarly consensus concerning patterns of elite political dynamics in the post-communist world, linked to inherited political-economic values and culture. From the cyclical perspective, the periodic political disjunctures in post-communist politics can best be understood, not as instances of democratic breakthrough or backsliding, as they were often portrayed by an earlier, rival school of political analysis, but rather as cycles of elite adaptation and reordering, as informal business-political networks interact with, and adjust to, changes in official politics.

In this light, the outcome of the Euromaidan events can be described as a revolution, but only a political one, since, despite the change in political leadership personnel—drawn mostly from the ranks of the pre-existing elite—there was also considerable carry over of elite political and economic practices, as I have detailed. That is, if the leading business-political networks survive, and the network personnel and network practices that constitute them survive, then the "regime" of the Ukrainian oligarchy survives. The cyclical conception of elite reproduction thus produces, I think, a more persuasive account of post-Euromaidan developments in Ukraine that better fits the available data than the alternative reading of democracy as periodically advancing or in retreat. It brings with it a fresh perspective on the problems of democratisation and the construction of market economies compared with the earlier, more linear approach, helping both to explain past policy failures and to inform policies for the future that, recognising local institutional specificities, may have a better chance of success.

Within this emerging academic consensus, Henry Hale’s work on patronalism in Eurasia (Hale, 2015) could be seen as a landmark contribution, which other authors—such as Heiko Pleines (2016), Andreas Umland (2017), Yuri Matsiyevsky (2018) and Sarah Whitmore (2019)—have taken up and applied to post-Euromaidan developments in Ukraine. A more recent publication by two Hungarian scholars, Bálint Magyar and Bálint Madlovics, offers a similar, but still more ambitious approach, proposing a general "ideal type" framework of analysis not just for the former Soviet region, as with Hale’s book, but for the post-communist region of eastern Europe as a whole (2020). My research does not contradict either of these. Although it examines similar processes and issues, of the overlap of formal and informal practices that, in combination, provide individual and group actors with distinctive incentive structures, it does so i) through the relatively restrictive lens of wealth, or of practices pertaining to the use and replenishment of wealth as a material resource power; ii) for Ukraine only, albeit with some externally comparative elements impinging on the narrative; and iii) for the political and economic dimensions of the social world (whereas Hale and Matsiyevsky concentrate mainly on the political dimension of regime continuity, the general, ideal-type framework of analysis of Magyar and Madlovics encompasses the political, communal and market “spheres of social action”).

<u>IV. The importance of the international dimension</u>

Finally, the cyclical model of institutional production outlined in the conclusion to this study, suggests that, if the conditions for perpetuation of Ukraine’s sub-optimal political economy model are conceived to be rooted solely in Ukraine’s domestic conditions, and not also as supported from the outside by a range of external actors and institutions, then proposals of how to bring about positive institutional and developmental change within Ukraine—as with the current “de-oligarchisation” campaign of Zelenskyi—are likely to go awry.

<u>D. Main economic side-effects of institutional reproduction</u>

The main focus of my dissertation, then, has been on the ways in which the oligarchy, as Ukraine’s dominant political economy regime, has been able to recreate itself across disruptive crises by way of a relatively limited set of adaptable, customary, informal political and economic practices. The cyclical framework elaborated above aims to show how my detailed empirical, national-level investigations could be conceived as fitting into a broader process of institutional reproduction, with supportive feed-ins at the regional and international levels. This framework could be useful for envisaging how existing research on this topic might be viewed as part of a wider, developing institutional whole, while perhaps also stimulating ideas for further research (on which I make some suggestions below).

However, as the “other side of the coin" of institutional reproduction, drawing on the two-part thesis of this study, a secondary aim of my dissertation has been to draw attention to some of the economic side-effects of the process of institutional reproduction of the Ukrainian oligarchy, so helping to explain Ukraine’s poor post-communist economic performance, as described in the opening chapter. As with the gathering of findings and conclusions on institutional reproduction above, the aim here is to bring together the economic side-effects observed in the empirical analyses into a more unified, coherent picture. It possible to group together into three or four main channels the negative economic effects of this process of institutional reproduction. In combination, these might be conceived as weighing on Ukraine’s economic development as depicted in Infographic 7.2 below.

First, “offshoreisation”, identified in Chapter Four as an outcome of the process of rapid wealth concentration amid insecure property rights, was portrayed as a way of protecting accumulated wealth against confiscation by business or political rivals—not least, in the 1990s, amid sometimes violent network competition—as well as of evading taxes, thereby simultaneously removing capital as a ready source of investment in the domestic economy and constraining inflows of public revenue. This can be considered the initial or “set-up” phase of a negative economic feedback loop between weak state capacity and low investment. This gets to the nub of the question of the specific mechanisms by which Ukraine’s post-communist political economy regime has tended to act as a fetter on the country’s economic growth.

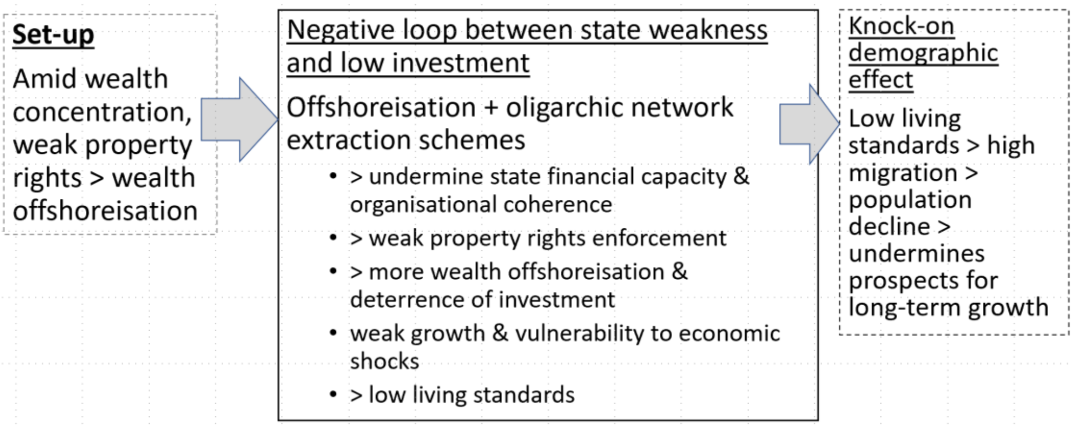
Second, in addition to offshorerisation, oligarchic rent-extraction schemes conducted by way of political connections to the state—such as those detailed in Chapter Six—recurrently undercut the financial capacity of the state. This was seen most readily in the chronic "quasi-fiscal deficits" run at Naftogaz until 2016, linked to the joint operation Ukrainian and Russian political and economic elites of large-scale gas intermediary rent-extraction schemes (Chapter Six). Another, equally important effect of the operation of such schemes on state capacity, I have argued, is through their undermining the state's organisational coherence and public administrative purpose. This occurs, in particular, through the penetration across the sub-institutions of the state of business network personnel, whose main allegiance may not be defined by the formal administrative positions they hold, but whose formal positional authority can be used to further the private interests of the informal business-political networks with which they are aligned.

In combination, the persistent undermining of the public finances and misuse of formal state authority for private advancement and material gain hampers the ability of the state to offset the impact of economic shocks, and of its judicial and law-enforcement bodies to apply laws relatively even-handedly. In other words, the ability to perform the standard function of a "rule of law" state, of "constituting" the legal framework needed for a market economy to run, is significantly constrained. Under such conditions, an absence of fully secure property rights continually recreates incentives for further wealth offshorisation, while raising business risks for both domestic and foreign investors.

In economic theory, capital accumulation through sustained investment is an essential means by which prosperity may be achieved. One the one hand, this is because it allows an increase in capital intensity, or rising provision of productive equipment to workers, that produces the boost to labour productivity on which lasting improvements in living standards depend. It is technological progress, however—or the application of new knowledge to the design of still-more productive machinery and work processes, itself in part the product of investment in research—that counters the effect of the tendency of returns to capital to fall as capital accumulation proceeds, thereby maintaining incentives for investing in domestic production rather than the alternatives (Algan et al, 2017, p. 3,022, 3,042). At the same time, while productivity boosts the economic surplus, whether and to what degree this is translated into higher average living standards across the population depends on how the additional surplus is distributed, which in turn depends on the bargaining power of the parties involved, of employers relative to employees (Algan et al, 2017, 3,158).

Lastly, by contributing to the economic conditions that keep wages and living standards in Ukraine low in European comparison (Chapter One), the institutional recreation of the Ukrainian oligarchy, and the negative economic feedback loop it sets up, has a knock-on demographic effect that also damages the economy’s long-term growth prospects. That is, through encouraging labour migration, including a “brain drain” effect (the loss to the domestic economy of the benefit of “human capital” that has been developed within it), it is a key factor behind persistent population decline. Although this phenomenon has affected a number of post-Soviet societies, it has been particularly severe in Ukraine. So, according to World Bank data, Ukraine’s population peaked at around 52.2m in 1993. Between then and 2017, however, it contracted by just over 14%, to an estimated 44.8m, a proportionately larger fall even than for Estonia, the country in eastern Europe with the next steepest pace of population decline (World Bank Data Bank, *World Development Indicators*.). This stylised account of the main economic impacts of institutional reproduction of the Ukrainian oligarchy is represented visually in Infographic 7.2, below, with the “set-up” and “knock-on” effects placed either side of the negative feedback loop as the central element, moving left to right.

Infographic 7.2: Institutional recreation of the Ukrainian oligarchy sets up negative economic feedback loop



Source: Author’s own work.

My account ties in with the argument of Balmaceda and Rutland (2014), referred to already in an earlier chapter, that a key negative outcome of the political economy model of modern Ukraine, dominated a small number of oligarchs and their organisations, is that it incentivises the pursuit of economic rents over investment, with long-term costs to the Ukrainian population. Another way of expressing this is that, in this model, it pays leading economic actors to focus more on the struggle over the division of the existing economic surplus than on its expansion. Although this conclusion will not surprise close observers of Ukraine's post-Soviet economic development, therefore, what is new in my study is that it shows concretely how poor overall economic outcomes can be connected to specific political-material processes of institutional reproduction.

E. Suggestions for further research

Drawing on the discussion of this chapter, it is possible to derive some suggestions for further research related to the political economy of contemporary Ukraine. This could include:

- Investigations of key sites and sectors of operation of oligarchic material political influence and economic extraction at the national level, other than the Rada and the energy sector (points 4 and 5 on Infographic 7.1 above). Research opportunities might include an examination of the systemic role of the presidential administration, the courts or the law-enforcement agencies, or of PrivatBank in Kolomoyskyi's network before the bank was nationalised in late 2016.
- A study of the operation of institutional support mechanisms at the regional or international level, and how they interact with national-level processes, including perhaps a more detailed empirical assessment of the scale of wealth held by Ukrainians abroad.
- Concrete, detailed micro-level descriptions of how business-political networks operate, and how they interact with one another and with public officials and institutions, as these are processes at the heart of Ukraine's contemporary political economy regime, but are understudied.
- A working out of the implications for Ukraine's development policy of the recast conception of the Ukrainian oligarchy elaborated in this study. In particular, what is implied for political and economic governance

reforms—weather those recommended by the international financial institutions (IFIs), or developed internally as “de-oligarchisation” drives—by an understanding of the oligarchy as motivated not only by the material incentives, but by these mediated by the shared habits of institutional actors? This “thickens” somewhat the broadly “rational actors” approach of the conjoined political economy theory assembled in Chapter Two by making it more sensitive to local cultural-institutional factors. It helps to explain why standard reform prescriptions, conceded in an emergency, often fail to take hold, since they do not take into account the socially pervasive “logic” of operation of political economy regimes characterised by “patronal” relations.

- My recast conception of the oligarchy as a stock of linked, adaptable, institutionalised informal practices may also help to explain a key development conundrum of the post-communist era. This is that Ukraine has been unable to build a fully rule-of-law state, even though oligarchs, as the leading wealth holders, would seem to have a strong material incentive to ensure such a development, as it would reduce the cost to them of defending their property claims personally. My somewhat “thickened” explanatory approach suggests that this is because of the shared institutional customs affecting actors’ perceptions of the proper or customary ways of securing and maintaining wealth and power, as well as perhaps what these are, and what they are for.
- In light of the alarming deterioration into to full-scale war with Russia at the time of writing, in March 2022, the topic of Ukraine’s governance reforms, and of why standard Western reform prescriptions have often failed to take hold over the past three decades, seems likely to be of central importance for Ukraine’s domestic reform policy, should it come through the conflict more or less intact. More clearly than ever before, this is because of its implications not only for national prosperity and security, but also for whether Ukraine is able to survive as a sovereign nation state over the longer term.

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